

CONTENTS

PART III. LENDER APPRAISAL PROCESSING PROGRAM

CHAPTER 18. INTRODUCTION

<u>PARAGRAPH</u>	<u>PAGE</u>
18.01 Scope	18-1
18.02 Basic Program Outline	18-1

CHAPTER 18. INTRODUCTION

18.01 SCOPE

This part of the handbook describes VA's Lender Appraisal Processing Program (LAPP) and provides the policies, procedures, instructions and guidelines to eligible lenders in applying for and operating under this special privilege. This program is a logical extension of the authority to close loans on the automatic basis. Public Law 100-198, Veterans' Home Loan Program Improvements and Property Rehabilitation Act of 1987, provides VA with the authority to establish this program.

18.02 BASIC PROGRAM OUTLINE

The basic process under this program is as follows:

a. Property Eligibility. Only individual single family existing construction cases are eligible for processing under this program [(this includes "cash-out" refinancing cases)]. The lender will be responsible for determining the basic eligibility of the property when requesting the appraisal. Appraisals shall not be requested for any case when the property has never been occupied and a suspended builder is still the owner of the property. Multi-family dwellings, manufactured homes, and requests for liquidation appraisal purposes are not eligible under LAPP. Proposed construction cases may be authorized in selected areas for test purposes. Existing construction cases are defined as:

(1) Previously owner occupied, regardless of the age or date construction was completed, provided the property meets VA MPR's (minimum property requirements) for existing construction (see par. 13.03).

(2) Not previously occupied, provided construction was completed 1 year or more prior to the date of the appraisal request and meets VA MPR's for existing construction.

(3) Not previously occupied, construction is less than 1 year old and is fully complete except for customer preference items (e.g., interior finishes, appliances, equipment) and those exterior improvements for which the VA regional office allows onsite escrows and the property is enrolled in an insured 10-year protection plan that has been accepted by [HUD (Department of Housing and Urban Development)] (see par. 23.02).

b. Lender Eligibility. Only supervised lenders and non supervised lenders who have been approved for the automatic authority may participate in this program.

c. Assignment Procedure. Either the telephone appraisal request procedure, or computer accessed request procedure, if available, may be used. Mailed and facsimile transmitted appraisal requests will not be accepted. The VA regional office will inform the lender of the case number and the name of the fee appraiser assigned to the case.

d. Lender Review of Appraisal. The lender's approved staff appraisal reviewer, upon receipt of the appraisal report from the VA assigned fee appraiser, shall review the appraisal for completeness, soundness and conformity with accepted appraisal techniques and practices, as well as outstanding VA guidelines, directives, and requirements. Upon determining the reasonable value for the property in accordance with the authority provided by this directive and 38 CFR 36.4344, and that the appropriate VA requirements have been met, the lender may then proceed to underwrite the loan on the automatic basis.

e. Loan Guaranty Certificate. In assuming the responsibilities involved with processing appraisals under this program and subsequently underwriting the loan on the automatic basis, the lender has reasonable certainty that VA Form 26-1899, Loan Guaranty Certificate, will be issued except in cases of fraud or misrepresentation by the lender. The lender is responsible for complying with all applicable outstanding procedures, regulations and statutory requirements.

CONTENTS

CHAPTER 19. REQUESTING DELEGATION OF LAPP AUTHORITY

<u>PARAGRAPH</u>	<u>PAGE</u>
19.01 Eligibility, Application and Processing Requirements for Approval	19-1
19.02 Nomination of Staff Appraisal Reviewer by Senior Officer	19-1
19.03 Qualifications of Staff Appraisal Reviewer	19-1
19.04 Location of Staff Appraisal Reviewer/Geographic Familiarity	19-2
19.05 Staff Appraisal Reviewer Certification	19-2
19.06 Applications	19-3
19.07 Quality Control Plan	19-4
19.08 Affiliates, Relationships	19-5
19.09 Other Certifications Required With the Application	19-6

CHAPTER 19. REQUESTING DELEGATION OF LAPP AUTHORITY

19.01 ELIGIBILITY, APPLICATION AND PROCESSING REQUIREMENTS FOR APPROVAL

Only supervised lenders and those non supervised lenders who have been approved by VA to process loans on the automatic basis may participate in the LAPP program. Those lenders who desire to obtain approval to make the reasonable value determination under LAPP shall comply with the following requirements:

19.02 NOMINATION OF STAFF APPRAISAL REVIEWER BY SENIOR OFFICER

The senior officer of the lending firm must nominate and recommend those qualified full-time salaried personnel who will act in the firm's behalf as their staff appraisal reviewers) to personally review appraisal reports received from VA assigned fee appraisers and to make reasonable value determinations associated with the submission of loans to VA which will be closed on the automatic basis. Lender staff review personnel may not be employed by or perform appraisal review services for any other lender and may not be on the VA fee panel. Although VA does not intend to preclude staff appraisal personnel from other private interests or pursuits, it must be understood that when such private interests or pursuits result in a situation in which VA considers a conflict exists with their responsibilities in determining reasonable value for VA loan guaranty purposes, action to withdraw or suspend the authority to determine reasonable value may result.

19.03 QUALIFICATIONS OF STAFF APPRAISAL REVIEWER

[The staff appraisal reviewer must show to the satisfaction of VA that his/her character, experience, and type of work in which he/she has had 3 years' experience qualifies him or her to competently perform administrative appraisal reviews, in conjunction with underwriting loans for VA loan guaranty purposes. The individual must be able to demonstrate, through descriptions of job experience, a general knowledge of, and the ability to apply the basic principles, methods, practices and techniques of appraising as they relate to the administrative review of an appraisal for loan underwriting purposes. Experience indicating a general knowledge of realty practice and principles as they relate to real property valuation, skill in collecting and assembling data, and the ability to prepare clear and concise reports in conjunction with administrative reviews as the practices apply to the underwriting decision are also desirable. The individual must have the ability to review the work of others, to recognize deviations from accepted appraisal principles and practices, and to detect errors in computations and unjustifiable and unsupportable conclusions. Applicants with at least 3 years of experience related to HUD's (Department of Housing and Urban Development) Direct Endorsement program are considered qualified as LAPP staff appraisal reviewers, provided all other application requirements have been satisfied.]

19.04 LOCATION OF STAFF APPRAISAL REVIEWER/GEOGRAPHIC FAMILIARITY

a. The lender's staff appraisal reviewer may be located in a branch office. When the VA-approved underwriter is also the VA-approved staff appraisal reviewer, that individual must be located and conduct activities at the home or main office or in the lender's regional underwriting office when VA has approved that office. There is no restriction on the location of a supervised lender's staff appraisal reviewer.

b. VA has no requirement that staff appraisal reviewers visit the geographic areas where properties processed under LAPP are located. Lenders are, however, strongly encouraged to continuously maintain current source materials which will assist their staff appraisal reviewers in identifying real estate market conditions in the major market areas in which the LAPP authority is used. Suggested source materials include weekend subscriptions to major newspapers which typically have expanded real estate sections and independent newsletters and publications which provide analysis and forecasts of various housing and mortgage trends and other statistical data for major U.S. housing markets and regions.

c. Location factors are fundamental to proper appraising. VA fee appraisers are expected to use proper appraisal techniques in completing appraisals and to accurately report and reflect overall market conditions as of the effective date of the appraisal report. Lenders' staff appraisal reviewers, by reviewing up-to-date location source materials, will be better prepared to properly analyze the location and market trend information contained in the URAR (Freddie Mac Form 70/Fannie Mae Form 1004, Uniform Residential Appraisal Report). Field reviews performed by the lender in conjunction with the lender's quality control plan will also provide assistance to staff appraisal reviewers in maintaining location familiarity.

19.05 STAFF APPRAISAL REVIEWER CERTIFICATION

The staff appraisal reviewer's role and responsibility are critical elements of LAPP. The staff appraisal reviewer must provide a one-time certification with the application which acknowledges that, by signing the URAR in LAPP cases, he or she is representing on behalf of the lender employer that he/she has acted properly and prudently. Such certification will be on the lender's letterhead and will read as follows:

"I hereby acknowledge and represent that by signing the URAR (Freddie Mac Form 70/Fannie Mae Form 1004, Uniform Residential Appraisal Report), I am certifying, in all cases, that I have personally reviewed the appraisal report. In doing so, I have considered and used recognized professional appraisal techniques,

have found the appraisal report to have been prepared in compliance with applicable VA requirements, and concur with the recommendations of the VA fee appraiser who was assigned by VA to the case. Furthermore, in those cases when clarifications or corrections have been requested from the VA fee appraiser, there has been no pressure or influence exerted on that appraiser to remove or change information that might be considered detrimental to the subject property, or VA's interests, or to reach a predetermined value for that property.

Signature of Staff Appraisal Reviewer"

19.06 APPLICATIONS

a. [VA Form 26-6681, Application for Fee Personnel Designation, will be used by lenders when requesting approval of the staff appraisal reviewer. Items 14, 15, 21, 22, 23 and 24 need not be completed. Applicants shall complete item 17, covering a minimum of the last 3 years. The information will include the number of administrative appraisal reviews, or technical reviews as an appraiser, if appropriate, or actual appraisals completed each year and state under whose employ. It should state whether those activities were for VA, HUD/FHA (Federal Housing Administration), or conventional purposes. Applicants who provide evidence of 3 or more years of HUD Direct Endorsement experience are not required to complete item 17. The applicant must also provide a separate resume or written statement describing his/her experience and current responsibilities in reviewing appraisals for loan underwriting purposes. The information provided on the separate resume or statement may be brief but should be sufficiently detailed that VA can, along with other information contained in the application, reach a conclusion that the individual meets VA's qualifications. The separate resume should include a brief synopsis of what the applicant considers in the review of an appraisal report, particularly concentrating on the "sales comparison analysis" section of the report. Applicants who provide evidence of 3 or more years of HUD Direct Endorsement experience are not required to provide this synopsis. In item 20 of VA Form 26-6681, or on the separate resume or statement, the applicant will list all successfully completed appraisal and real estate related courses. The top of the form will reflect that the application is for the lender's staff appraisal reviewer.] In addition to VA Form 26-6681, the senior officer of the lending firm must provide the following statement and certification in letter form:

"We hereby nominate and recommend to VA [_____, the full-time salaried employee,] who is authorized to act on our behalf as a staff appraisal reviewer, and is qualified to review and concur in recommendations of VA fee panel appraisers in those cases in which we determine the reasonable value of properties associated

June 17, 1994

with loans to be closed by us on the automatic basis. We acknowledge that any improper actions of the staff appraisal reviewer shall be imputed to the employer who is ultimately responsible for the actions of the employee. The nominee, to the best of our knowledge and belief, has and will maintain a high level of integrity, trust, professional ethics and technical ability. We have reviewed this application, personally interviewed the nominee and conducted a thorough review of the appraisal related capabilities and performance of the nominee. Based on the above, we find the nominee to be qualified as a staff appraisal reviewer in accordance with qualifications established by VA. If we should, at any time in the future, change or limit this recommendation or terminate our relationship with the nominee, we, the undersigned, agree to promptly notify the VA regional offices or centers of jurisdiction.

Signature, Title"

b. VA Form 26-6681, accompanied by all information including certifications, statements, and quality control plan required by this handbook, must be submitted in duplicate to the VA regional office or center serving the office of the lender where the staff appraisal reviewer is located. The applicant need not submit VA Form 26-6684, Statement of Fee Appraisers or Compliance Inspectors, as instructed by VA Form 26-6681. [] Upon receipt of the completed application, the VA regional office or center will determine that all required information has been provided and will forward the originals of the application and all other required information to VA Central Office within 10 workdays from receipt. VA Central Office will review the application package and advise lender-applicants and the VA regional office or center of its decision on the acceptability of the applicant.

[]

[c.] Lenders who desire to add additional staff appraisal reviewers must provide a complete application package, with the exception of the quality control plan if it remains unchanged from the plan originally submitted, for each individual who will be named as a staff appraisal reviewer.

19.07 QUALITY CONTROL PLAN

Under LAPP, the lender must have an effective quality control or comparable system to ensure the adequacy and quality of staff appraisal reviewer's processing and that its activities do not deviate from high standards of integrity. The quality control system must include frequent, periodic audits that specifically address the appraisal review activity. Audits may be performed by an independent party or an independent internal audit division which reports directly to the firm's chief executive officer. Upon demand

by VA, the lender must agree to furnish findings and information about this system. While quality control personnel need not be appraisers, they should have basic familiarity with appraisal theory and techniques and the ability to prescribe appropriate corrective action(s) in the appraisal review process when discrepancies or problems are identified. The plan or system must be provided with the lender's application for LAPP authority. {To assist VA in processing the LAPP application, it is recommended, but not required, that the LAPP quality control provisions be incorporated as an addendum, or separate section of the lender's quality control plan.] The basic elements of the system will include the following:

a. Desk reviews of a representative sampling of each staff appraisal reviewer's appraisal reviews. The sampling size should be no less than 5 percent of the monthly volume of cases processed under LAPP authority or a minimum number of cases; e.g., five cases. The quality reviews should be performed on a routine basis (e.g., monthly or quarterly) and consider the overall quality of the lender staff review personnel appraisal review, the acceptability of the property in light of VA minimum property requirements and the appropriateness of the reasonable value determination.

b. Written notification on at least a quarterly basis to the firm's senior management or chief executive officer of deficiencies cited in audit/quality control reviews. Senior management should promptly initiate action to correct deficiencies. Such actions should be formally documented and staff appraisal reviewers provided with corrective instructions. Procedures for expanding the scope of audit must be identified when a pattern(s) of deficiencies exists.

c. Random spot-check field reviews of VA fee panel appraisals should be performed by the staff appraisal reviewer, if possible, or an independent appraiser on a contract basis. Any substantive negative findings must be formally reported to the VA regional office or center where the fee appraiser is a member of the fee panel.

d. Assurance that all available VA releases, directives, informational letters, regulations and directives pertaining to LAPP are maintained current and immediately accessible to the quality control personnel and staff appraisal reviewers.

e. The quality control system should be independent of the loan production operation.

19.08 AFFILIATES, RELATIONSHIPS

The lender will not be authorized to use LAPP for any builder, land developer, real estate broker or any other entity in which it has a financial interest or which it owns, or with which it is affiliated. This restriction may be eliminated where the only

relationship between the lender and a builder is a construction loan or when the lender can provide documentation which demonstrates to VA's satisfaction that the lender and builder or other affiliate are essentially separate entities operating independently of each other, free of all cross influences (e.g., formal corporate agreement is provided which specifically sets forth this fact). Such documentation must be included with the application for LAPP authority. Additionally, the lender's quality control plan must address the insulation of the fee appraiser, appraisal reviewer and the underwriter from the influence of the affiliate.

19.09 OTHER CERTIFICATIONS REQUIRED WITH APPLICATION

a. Disclosure of Suspension, Debarment or Sanctions. The staff appraisal reviewer applicants must certify that he/she has not been suspended, debarred or had a similar sanction imposed by any Department or Agency of the Federal Government or of a State government which prohibits him or her from doing business with such Department or Agency and that there are no known unresolved findings against him or her, as a result of a VA or HUD audit or other government investigation. Furthermore, if the applicant is, or was, a member of a professional organization (e.g., professional appraisal organization) any administrative sanctions must not have been taken. If the individual cannot certify to the preceding, a letter fully explaining the details should be attached.

b. No Accommodations or Courtesy Certification. A senior officer in the company must certify to VA in writing that it will not perform any reasonable value determinations as a courtesy or accommodation for any other mortgage lender regardless of whether or not the other lender is authorized by VA to also determine reasonable value and close loans on the automatic basis. The appraisal review and determination of reasonable value must not be delegated and must be performed only by the lender's VA approved staff appraisal reviewer.

c. Outstanding CRV (Certificate of Reasonable Value) or HUD Commitment Certification. A senior officer in the company must certify in writing that no appraisal will be ordered under this program when to the company's knowledge and belief there is a valid CRV (certificate of reasonable value) or HUD conditional commitment outstanding for the subject property. Conversely, no CRV or HUD conditional commitments will be ordered when the case has been previously processed under LAPP, unless authority for such action has been specifically granted by VA.

19.10 LAPP AUTHORITY APPLICATION FEES

Lenders requesting LAPP authority are required to pay a one-time \$100 fee for each staff appraisal reviewer applicant. This fee is to be submitted to the appropriate field station with the application. The fee is non refundable, even if the applicant is

June 17, 1994

VA Pamphlet 26-7
Change 16

found not [to] be acceptable. If a staff appraisal reviewer is approved and subsequently moves to another lender, a \$100 application fee must be paid by the new employer. All fees must be in the form of a lender's check payable to the Department of Veterans Affairs.

CONTENTS

CHAPTER 20. INITIAL APPROVAL REQUIREMENTS

<u>PARAGRAPH</u>	<u>PAGE</u>
20.01 Initial Approval of Lender's Staff Appraisal Reviewer(s)	20-1
20.02 Initial VA Office Case Review Requirement	20-1
20.03 Training Requirement	20-2
20.04 Subsequent VA Office Case Review Requirement	20-3
20.05 Extension of Initial and/or Subsequent Office Review Requirements	20-3
20.06 Initial and Subsequent VA Office Case Review Requirements for Additional Staff Appraisal Reviewers	20-3
20.07 Change in Employment Status of Staff Appraisal Reviewer	20-4
20.08 Importance of LAPP Lender Appraisal Reviewer's Role and Responsibility	20-4
20.09 Lender Maintenance of LAPP Related Materials and Releases	20-5

CHAPTER 20. INITIAL APPROVAL REQUIREMENTS

20.01 INITIAL APPROVAL OF LENDER'S STAFF APPRAISAL REVIEWER(S)

Lenders whose staff appraisal reviewers are determined acceptable by VA Central Office will be authorized to review appraisals and make reasonable value determinations subject to a one-year probationary period and satisfaction of an initial VA office case review requirement, a training requirement, and, if applicable, subsequent VA office case review requirement(s). Satisfaction of the VA office case review requirement(s) and training requirement, as discussed in paragraphs 20.02 and 20.03, are required prior to the lender being authorized to determine reasonable value without prior VA involvement. [VA field stations will advise lenders by letter of each LAPP staff appraisal reviewer's satisfaction of the case review and training requirements. The one-year probationary period starts on the date of these letters. Near the end of the probationary period, the field station will advise the lender by letter whether the probation has been satisfied, the probationary period extended, or the LAPP authority revoked. This determination will be based upon the field station's experience with the quality of the staff appraisal reviewer's processing of LAPP cases. The probationary period requirement applies only to the field station which has jurisdiction over the State in which the LAPP staff appraisal reviewer is physically located and not to subsequent field stations to which he or she applies.]

20.02 INITIAL VA OFFICE CASE REVIEW REQUIREMENT

a. The initial VA office case review requirement must be satisfied in the VA regional office with jurisdiction of the area where the lender's staff appraisal reviewer is located before LAPP authority may be used by that lender in that or any other VA office's jurisdiction. To satisfy the initial office case review requirement, the first five cases of each lender's staff appraisal reviewer involving properties located in the jurisdiction of the VA regional office where the staff appraisal reviewer is located will be processed by him or her up to the point a reasonable value determination and a fully drafted, BUT NOT ISSUED, notification of reasonable value letter to the veteran are prepared. At that point, and prior to loan closing, each of the five cases will be submitted to the local VA office. VA staff appraisers will issue the CRV for these cases within 5 workdays after receipt, provided the fee appraiser's appraisal report is acceptable. The lender may use that CRV to close the loan on the automatic basis. VA staff appraisers will make a determination as to the acceptability of the LAPP lenders processing of the case. Lenders need not delay the mortgage credit underwriting process in those cases when VA issues the CRV (i.e., order credit reports or employment verifications) while the initial case review by VA is underway. If the lender's staff appraisal reviewer's processing, reasonable value recommendation,

June 17, 1994

and notification of reasonable value letter, including cited conditions and requirements, for these five cases are satisfactory, then the lender will be notified by letter that, as a LAPP lender, it is authorized to make subsequent reasonable value determinations for properties located in that regional office's jurisdiction without prior review by VA staff personnel. If the VA regional office determines that the lender's staff appraisal reviewer's processing of any of the initial five cases contains deficiencies VA will, by letter issued within 5 workdays of receipt of each case, notify the lender of the specific problems noted in the review of the cases. If the deficiencies are substantive (e.g., significant appraisal errors not identified, proper MPR or other conditions or requirements not correctly noted on the notification letter to the veteran as a condition to VA guaranty) the VA regional office will state in the letter that the lender must continue to submit LAPP cases for review and VA will issue the CRV prior to closing. Additionally, the VA regional office may require that the staff appraisal reviewer come into the office, if appropriate, for counseling or training.

b. It is anticipated that in most instances VA initial office case review of each LAPP staff appraisal reviewer's cases will total not more than the five cases, especially when the lender has significant HUD Direct Endorsement program experience. Any problems or deficiencies encountered will most likely relate to the notification letter and VA conditions and requirements which differ from HUD's program.

c. Upon satisfactory completion of the initial office case review requirement, the lender will be authorized to determine the reasonable value of properties which are located in the initial VA office's jurisdiction proposed as security for VA guaranteed loans without prior VA involvement other than VA rotational fee appraiser assignment. Thereafter, a routine review of cases processed by the lender under LAPP authority will be made by VA staff based upon quality control procedures established by VA. Such review will be on a random sampling or performance related basis. During the probationary period a high percentage of reviews will be made by VA staff.

[d. When a staff appraisal reviewer has completed the initial case review and training requirement, and then leaves the employment of the lender for another lender under the jurisdiction of the same regional office, the reviewer will not be required to complete the case review and training requirements again. If the LAPP staff appraisal reviewer has also completed the subsequent case review and training review requirements for other field stations (see par. 20.04), he or she will not be required to satisfy these requirements again if he/she moves to another firm.]

20.03 TRAINING REQUIREMENT

Prior to each staff appraisal reviewer receiving authority to review appraisals and determine reasonable value without VA involvement, there is a training requirement which must be satisfied with the VA regional office having jurisdiction where the staff appraisal reviewer is located. Although it is desirable for the requirement to be satisfied by a meeting at the VA regional office, VA offices may arrange training through meetings or seminars in other locations, if appropriate (e.g., in concert with scheduled field travel in outlying areas of their jurisdiction). At a minimum, the training should consist of a one day session to discuss LAPP processing procedures and guidelines and local VA office requirements and conditions. In most cases, the training requirement should be satisfied before any of the cases under the initial VA office case review requirement are reviewed by the lender's staff appraisal reviewer. However, VA offices may, at their discretion, alternatively require that the training requirement be satisfied during or at the completion of the initial VA office case review requirement. Upon receipt of the notice that the staff appraisal reviewer(s) has been determined acceptable, the lender must call the VA regional office to make arrangements for the required training and to receive other appropriate instructions for initiating the processing of cases under LAPP. [VA regional offices may not extend the authority to determine reasonable value until the staff appraisal reviewer has satisfied the training requirement. VA regional offices may waive the training requirement when the individual is located in the office with another staff appraisal reviewer who currently has full LAPP authority, and is performing acceptably. The previously approved staff appraisal reviewer will be responsible for providing the VA related training.]

20.04 SUBSEQUENT VA OFFICE CASE REVIEW REQUIREMENT

In order to extend and use LAPP authority to determine reasonable value of properties located in other VA office jurisdictions, the lender's staff appraisal reviewer must have successfully completed the initial VA office review requirement, training requirement, and then must satisfy the subsequent office review requirement. Each staff appraisal reviewer's first case in each new VA office jurisdiction must be submitted to that VA office along with a copy of the letter from the initial VA office evidencing that the initial office review requirement has been satisfied. Each subsequent VA office will process this first case in the same manner as the initial VA office case review requirement as described in paragraph 20.02. If this first LAPP case is found to be acceptable by the VA regional office, the lender will be formally advised that their staff appraisal reviewer may process subsequent LAPP cases in that jurisdiction without prior involvement by VA. The subsequent office review requirement may be satisfied simultaneously at other VA offices.

20.05 EXTENSION OF INITIAL AND/OR SUBSEQUENT OFFICE REVIEW REQUIREMENTS

VA offices may extend the initial or subsequent office review requirement(s) if satisfactory performance is not demonstrated. Central Office concurrence is required for any such extension.

20.06 INITIAL AND SUBSEQUENT VA OFFICE CASE REVIEW REQUIREMENTS FOR ADDITIONAL STAFF APPRAISAL REVIEWERS

a. When the lender adds a new staff appraisal reviewer, the initial VA office case review requirement will apply and must be satisfied in the VA regional office jurisdiction where the new staff appraisal reviewer is located. The subsequent VA office case review requirement must also be satisfied if the lender desires to extend and use the additional staff appraisal reviewer to process LAPP cases in other VA office jurisdictions. VA offices may consider waiving the requirement for the subsequent VA office case review if the new staff appraisal reviewer is located in an office with another staff appraisal reviewer who has already satisfied this requirement and who has demonstrated satisfactory performance. When the requirement is waived, the lender's staff appraisal reviewer who already satisfied the subsequent office review requirement will be responsible for overseeing the added staff appraisal reviewer's processing and orientating that individual to the requirements specific to the new jurisdiction. The initial VA office case review requirements may not be waived except under the following circumstances.

b. VA regional offices may consider waiving the initial case review requirement when the individual has acceptably satisfied this requirement previously under the employ of another LAPP lender in their jurisdiction, when the individual has demonstrated past acceptable performance with the regional office, [or] when the individual is now on the staff of the new LAPP lender with one or more staff appraisal reviewers who are demonstrating acceptable performance.

20.07 CHANGE IN EMPLOYMENT STATUS OF STAFF APPRAISAL REVIEWER

Acceptance by VA of the lender's LAPP staff appraisal reviewer ceases when the nominating lender no longer employs that individual in that capacity. When that individual was the sole LAPP staff appraisal reviewer, the lender no longer meets a basic LAPP requirement and the LAPP authority is automatically terminated for any cases not reviewed by that individual. As noted in the senior officer's nomination certification, the lender must promptly notify VA regional offices of the change in status or termination of the individual nominated as the LAPP staff appraisal reviewer. VA regional offices will in turn formally advise Central Office of the change in status of the lender and lender staff appraisal reviewer. Individuals who have previously been qualified by Central Office must

be renominated by a new lender employer and a complete application package, with the exception of the quality control plan which need be submitted only if the lender has not been previously delegated LAPP authority. VA regional offices will attempt to verify with any former LAPP employer that the basis for termination was not related to improper performance which would compromise the individual's ability to meet VA's qualification requirements.

20.08 IMPORTANCE OF LAPP LENDER APPRAISAL REVIEWER'S ROLE AND RESPONSIBILITY

The lender's staff appraisal reviewer's role and responsibility are critical elements of LAPP. The lender's staff appraisal reviewer, by making the required certification filed at the time of application, is stating that, in all cases, he or she has: (a) personally reviewed the appraisal report; (b) considered and used recognized appraisal techniques; (c) finds compliance with applicable VA requirements; and (d) concurs in the recommendations of the fee appraiser; or (e) when clarifications or corrections to the appraisal report were requested, no pressure or undue influence was exerted on the appraiser to change detrimental information or to reach a predetermined value for the subject property in order to accommodate the sales or mortgage transaction.

20.09 LENDER MAINTENANCE LAPP RELATED MATERIALS AND RELEASES

The lender shall maintain copies of all available guidelines, directives, releases, circulars, regulations, statutes, and instructions issued by local VA office(s) having jurisdiction over each area where the lender originates LAPP loans, particularly those directly relating to LAPP. Local VA offices are available to advise and assist in processing cases under this special privilege and will hold periodic training sessions on the lender appraisal processing program as appropriate. Additionally, instructional materials concerning appraisals completed on the URAR (Uniform Residential Appraisal Report) are available from a number of private sources. Since VA appraisals are completed on the URAR, lenders may consider obtaining such materials to assist their staff appraisal reviewer(s) in reviewing appraisals completed by VA assigned fee appraisers. Lenders should be aware that VA instructions or procedures prevail when in conflict with private source materials.

CONTENTSCHAPTER 21. LENDER PROCESSING UNDER LAPP

<u>PARAGRAPH</u>	<u>PAGE</u>
21.01 Privilege and Responsibility	21-1
21.02 Due Diligence	21-1
21.03 Property Eligibility	21-1
21.04 Request for Assignment of Fee Appraiser	21-1
21.05 Forwarding VA Form 26-1805	21-2
[21.05.1 Use of Authorized Agents	21-2]
21.06 LAPP Lender's Role/Review	[21-2a]
21.07 Adjustment of Value Recommendations	21-4
21.08 Assistance and Cooperation of Fee Appraiser	21-5
21.09 MPR Repair Requirements/LAPP Lender's Authority	21-6
21.10 Unapproved PUD's or Condominiums	21-7
21.11 Leasehold Estates	21-7
21.12 LAPP Lender's Determination of Reasonable Value	21-7
21.13 LAPP Lender Notification of Reasonable Value Letter	21-8
21.14 Copy to VA of URAR and LAPP Lender Notification of Reasonable Value Letter	21-8
21.15 Other Considerations in Processing LAPP Cases	21-8
21.16 Satisfaction of Repair Requirements	21-10
21.17 Title Limitations	21-11
21.18 Complaints	21-11
21.19 Submission of Case to VA for Guaranty	21-11
21.20 Validity Period/Expiration of the Appraisal	21-12
21.21 Appraisal Processed Under LAPP and Submitted to VA for Credit Underwriting on the Prior Approval Basis	21-12
21.22 Convertibility of Appraisals Ordered Through HUD	21-13
21.23 Transfer of Appraisal Reports in LAPP Cases	21-14

CHAPTER 21. LENDER PROCESSING UNDER LAPP

21.01 PRIVILEGE AND RESPONSIBILITY

The authority to determine reasonable value is delegated at VA's discretion. The authority is extended on the basis of qualifications, experience and expertise of the lender's staff appraisal reviewer(s). Responsibilities of lenders delegated this authority include: ensuring that staff appraisal reviewers review appraisal reports in accordance with recognized appraisal techniques; making prudent and sound determinations of reasonable value; ensuring that the property meets VA minimum property requirements and is acceptable security for a VA guaranteed loan; understanding VA underwriting standards, eligibility, and entitlement requirements.

21.02 DUE DILIGENCE

Lenders are expected to exercise due diligence in processing LAPP cases, by compliance with LAPP regulations (38 CFR 36.4344) and with appropriate sections of this handbook. Due diligence is considered by VA to also represent that care is to be properly expected from, and ordinarily exercised by, reasonable and prudent lenders who would be entirely dependent on the property as security to protect its investment.

21.03 PROPERTY ELIGIBILITY

Unless otherwise authorized by VA, only individual existing construction cases are eligible for processing under LAPP. The lender is responsible for determining that the property is eligible to be processed under LAPP. Proposed construction cases, multi-family, manufactured homes, liquidation appraisal cases, and any existing, not previously occupied property in which the owner is a suspended builder are not eligible for processing under LAPP. Condominiums and PUD's (planned-unit developments) must be determined acceptable by VA, HUD or USDA before individual cases can be appraised. Appraisals cannot be ordered under this program when there is a valid CRV or HUD conditional commitment outstanding on the property. Existing construction cases are defined in paragraph 18.02a.

21.04 REQUEST FOR ASSIGNMENT OF FEE APPRAISER

a. Either the telephone appraisal request procedure, or computer-access request procedure, if available, may be used. Mailed or facsimile transmitted appraisal requests will not be accepted. The VA assignment clerk, or automated system in use, will inform the lender of the case number and the name of the fee appraiser assigned to the case. When making the request the

lender must identify the case as being processed under LAPP. Cases processed under this program will receive case numbers from the common numbering system; however, a new designation for the type of case is denoted by the prefix LAP. It is essential that lenders denote on VA Form 26-1805, VA Request for Determination of Reasonable Value, this LAP prefix before the case number and show in bold capital letters under the lender's name and address on the appraisal request form "LENDER APPRAISAL PROCESSING PROGRAM (LAPP) CASE."

b. Fee appraisers must be able to determine that the appraisal report will be forwarded to the lender, not VA, for review, processing, and determination of reasonable value. The regional office must also be able to determine those cases processed under LAPP for program reporting purposes and for exclusion of these cases from routine timeliness tracking.

21.05 FORWARDING VA FORM 26-1805

Upon assignment of the case number and fee appraiser by VA, the lender [or the authorized agent of the lender] will immediately forward VA Form 26-1805, completed with appropriate information, including the required notations noted in paragraph 21.04, to the fee appraiser. The lender retains the lender's copy for its files and forwards the package intact to the VA assigned fee appraiser. [Authorized agents will follow the sponsoring lender's policy regarding the lender's copy of VA Form 26-1805.]

[21.05.1 USE OF AUTHORIZED AGENTS

a. The role authorized agents (a.k.a. loan correspondents or mortgage brokers) play in the LAPP process is similar to that for any other VA loan (see par. 1.07 for loan policy matters). The sponsoring lender must have an established ongoing agency relationship with the agent that is recognized by VA as evidenced by a corporate resolution which VA has accepted. Use of agents where there has been no corporate resolution established is not permitted for LAPP appraisal-related processing. As provided in the corporate resolution, LAPP lenders must accept full responsibility for the actions of authorized agents. Additionally, the sponsoring LAPP lender is responsible for assuring that the authorized agent is appropriately trained and knowledgeable of VA appraisal assignment procedures and of the restrictions on their role in LAPP.

b. Authorized agents may order appraisals for approved LAPP lenders. When using the computer-access request procedure, the agent must use the LAPP lender's identification number. The system will not assign an appraiser unless the requester is approved under the LAPP program. Authorized agents will not receive LAPP identification numbers. Ordering the appraisal is

the only appraisal-related function that an authorized agent of a LAPP lender can perform. Authorized agents are not permitted to receive, forward or otherwise handle completed appraisal reports.

c. When an authorized agent requests the LAPP appraisal, the fee appraiser must be advised to mail the completed report directly to the LAPP lender, not the agent, for review. It is important that the agent place the LAPP lender's address in item 5 of VA Form 26-1805. The agent should sign item 38 as the person authorizing the request, indicate the name of their firm in item 39 and provide the appropriate telephone number(s) in item 40. The authorized agent is making the required certifications on behalf of the sponsoring lender.

d. Authorized agents may contact assigned fee appraisers only about timeliness of completion of appraisals. They are not permitted to discuss other appraisal matters relating to the valuation of the property. Only the lender's staff appraisal reviewer is authorized to contact the fee appraiser to discuss valuation matters.

e. Authorized agents are not permitted to advertise or otherwise represent in any way that they are LAPP approved or have LAPP authority.

f. In some cases, there may be an authorized agent relationship between lenders who both have LAPP authority. As provided in subparagraph a above, that relationship must be formally recognized by VA. In any case in which a LAPP authorized lender is acting as an authorized agent for another LAPP lender, the staff appraisal reviewer for the lender funding (sponsoring) the loan is responsible for issuing the notification of value in the sponsoring lender's name. Lenders acting in an authorized agent capacity cannot issue a LAPP notification of value. (See par. 21.23, Transfer of Appraisal Reports in LAPP Cases.)]

21.06 LAPP LENDER'S ROLE/REVIEW

a. VA fee appraisers are expected to return completed appraisals to the lender within the same timeframe as other VA appraisals. The lender, upon receipt of the appraisal report from the fee appraiser, shall have its VA designated staff appraisal reviewer review the report for conformity with accepted appraisal techniques, directives, guidelines and local requirements issued by the VA regional office of jurisdiction, and VA minimum property requirements for existing construction. Essentially, the review by the lender's staff appraisal reviewer consists of the following:

(1) Verification that the appraisal report form is fully completed as required and that the factual information submitted is reported correctly.

(2) Determination of appropriateness and reasonableness of the appraiser's methodology in light of industry accepted appraisal techniques and practices and consistency of the conclusions based upon data in the report.

(3) Determination that data conclusions and the value recommendations are consistent (as is reasonably determined from available information or data) with other data conclusions and value recommendations in similar cases recently processed by that lender.

(4) Compliance with current VA appraisal instructions, directives, and guidelines.

b. It is important for the lender's staff appraisal reviewer(s) to recognize that the appraisal review is a vital part of the overall risk analysis. The staff appraisal reviewer and the fee appraiser have important roles in the VA Loan Guaranty Program. The fee appraiser's role is to provide an objective, adequately supported estimate of market value of an accurately described subject property. The fee appraiser is required to render a value estimate in accordance with VA's regulatory definition of reasonable value (38 CFR 36.4301), "that figure which represents the amount a reputable and qualified appraiser, unaffected by personal interest, bias, or prejudice, would recommend to a prospective purchaser as a proper price or cost in the light of prevailing conditions." VA considers reasonable value and market value to be synonymous. VA's definition of market value is considered consistent with that used by Fannie Mae, Freddie Mac and major appraisal organizations. It is the VA fee appraiser's responsibility to develop a market value for the subject property which is consistent with the current standard definition of market value and the VA regulatory definition of reasonable value.

c. Under LAPP, the lender's staff appraisal reviewer's appraisal review is a crucial control over the quality of appraisal reports completed by fee basis appraisers and the property value determinations. The importance of care and sound judgment in the proper review of appraisal reports cannot be overstated. When information, data conclusions, or methodology contained in the appraisal report require additional clarification or support, the lender's staff appraisal reviewer will obtain from the fee appraiser the information necessary to make a prudent decision on the reasonableness of the value estimate. Lenders are reminded, however, that they must not attempt to unduly influence the appraisers' reporting of market or property conditions and estimate of value. While attempts to unduly influence the fee appraiser are clearly unacceptable, the staff appraisal reviewer is free to question the appraiser's findings and request additional information or clarifications to support conclusions contained in the appraisal report. Proper reviews and surveillance of fee personnel are essential to the viability of the Loan Guaranty Program and have a direct effect on the interests of the Government and the veteran, as well as lenders participation in the program. Paragraph 23.03 provides some guidelines to assist LAPP staff appraisal reviewers and represents items to consider on the fee appraiser's appraisal analysis or methodology. Paragraph 23.03 is not an all-encompassing list which lessens or limits the importance of other considerations and is not to be used as a checklist.

d. VA places the most reliance on the sales comparison approach. Where the fee appraiser has based the final value estimate on the cost or income approach and not the sales comparison approach, the staff appraisal reviewer must contact the regional office with jurisdiction over the location of the property to discuss the proper handling of the case. At the discretion of the regional office, it may be necessary to forward the case to the Construction and Valuation Section for review and issuance of the CRV.

June 17, 1994

[e. VA does not consider that LAPP staff appraisal reviewers are acting as "appraisers" when they complete their reviews of appraisal reports. Staff appraisal reviewers are not taking on the responsibility of a "cosigner" or of a "supervisory appraiser." Therefore, to avoid confusion in the marketplace as to the role of LAPP staff appraisal reviewers, they should not make any comments, adjustments, etc. on the appraisal report. In lieu of signing or initialing the report, a stamped impression, signed and dated by the staff appraisal reviewer and which indicates the reviewer's LAPP identification number, will be used in every case as the method for separating the LAPP review function from the actual signing of the report by the VA fee appraiser. The stamped impression should read as follows:

"This appraisal report has been reviewed to determine the acceptability of the property in light of VA minimum property requirements and the appropriateness, completeness, consistency and accuracy of the reasonable value determination for VA Loan Guaranty purposes. In completing this administrative review, the staff appraisal reviewer is performing a due diligence function and is not acting as, or taking the responsibility of, a cosigner of the report or supervisory appraiser. Any disagreements or comments, etc. resulting from the administrative review of this appraisal are fully explained on the attachment to this report. (If there were none check this box []).

Signed

LAPP ID No.

Date]

21.07 ADJUSTMENT OF VALUE RECOMMENDATIONS

The authority of the lender's staff appraisal reviewer to adjust the [estimated market value for VA Loan Guaranty purposes] during the reviewer's initial review of the appraisal report, or in subsequently processing an appeal of the lender's determination of reasonable value, is limited. In either case, the lender's staff appraisal reviewer's adjustment [(either up or down)] cannot exceed 2 percent of the fee appraiser's estimated market value [except when an appeal of value is sent to the fee appraiser who recommends a decrease in value of more than 2 percent.] IT IS TO BE COMPLETELY UNDERSTOOD THAT THE 2 PERCENT AMOUNT IS WAY TO BE AN ADMINISTRATIVE ADJUSTMENT FIGURE WHICH MAY BE USED AND INDISCRIMINATELY, AND WITHOUT ANALYSIS OF VALID DATA, AND THEREFORE WITHOUT BASIS OR JUSTIFICATION WITH THE SOLE PURPOSE OF REACHING AN AMOUNT NECESSARY TO CONSUMMATE THE SALE OR MORTGAGE TRANSACTION. ALL CASES IN WHICH THE LAPP LENDER STAFF APPRAISAL REVIEWER MAKES AN UPWARD ADJUSTMENT TO THE FEE APPRAISER'S ESTIMATED MARKET VALUE AS INDICATED BY THE SALES COMPARISON APPROACH WILL BE DESK AUDITED AND/OR FIELD REVIEWED BY VA STAFF. Any revision, correction, or clarification by the fee appraiser subsequent to the submission of his/her original appraisal report to the lender, either as a result

of the staff appraisal reviewer's initial review or of an appeal, may not be processed by the lender for any amount in excess of the 2 percent limitation (fee appraisers are not limited by the 2 percent amount) and must be forwarded to the appropriate VA regional office with a cover letter requesting VA processing of the fee appraiser's recommendation(s). [An exception is when the fee appraiser recommends that the estimated value of the property be reduced by more than 2 percent.] Additionally, lenders are put on notice that when VA has incurred a loss as a result of a payment of claim under guaranty and VA determines an increase made by the lender was unwarranted, or arbitrary and capricious, the lender will indemnify VA to the extent VA determines such loss was caused, or increased, by the increase in value. [VA does not consider that this authority for VA Loan Guaranty purposes makes the staff appraisal reviewer an "appraiser." Some States, however, have taken the position under their appraiser regulatory systems that any change in value by a reviewer brings that individual under the State appraiser requirements. Staff appraisal reviewers should not exercise this authority in any State when doing so would be considered in conflict with a State's requirements in this area.] The lender staff appraisal reviewer's authority to adjust is as follows:

a. Adjustment During Initial Review. Any adjustment during the staff appraisal reviewer's initial review of the appraisal report must be fully and clearly justified in writing on [an attachment to the appraisal report]. The basis for the adjustment must be adequate and reasonable by professional appraisal standards. Real estate market or other valid data used in arriving at the decision to make the adjustment must be attached to the appraisal report. If the staff appraisal reviewer determines the fee appraiser's appraisal report requires additional clarification or justification or correction, the staff appraisal reviewer shall contact the fee appraiser directly for the necessary information or corrective action(s). Any information, revisions, corrections, justifications, etc., provided by the fee appraiser must be in writing and attached to the original appraisal report. []

b. Processing Appeals of Value[- 2 Percent and Under]. Lenders may not process an appeal of any amount under LAPP authority when they will be using an additional appraisal report performed by an appraiser they selected in order to support the appeal. This is specifically prohibited by 38 U.S.C. [3731(d)]. When the lender wishes to use an additional appraisal report as noted above, the case must be forwarded to VA for processing and final determination. Veterans are not affected by the statutory prohibition and may use an additional appraisal report by an appraiser they selected to support an appeal which the LAPP lender may then process provided the amount of the increase is within the 2 percent amount. The lender shall not process any appeal in cases when the staff appraisal reviewer has adjusted the market value estimate during the initial review of the

June 17, 1994

appraisal report if the aggregate amount of the increase exceeds the 2 percent amount. [] The fee appraiser's estimated market value or lender's reasonable value determination may be increased only when such increase is clearly warranted and fully supported by real estate market or other valid data considered adequate and reasonable by professional appraisal standards. The staff appraisal reviewer must fully and clearly justify the reason and basis for the increase in writing on [an attachment to the appraisal report]. The analysis of additional sales data should be performed using the sales comparison grid from the appraisal report, or a similar format, and include appropriate adjustments for all factors of difference which contribute to value that exist between the subject and the sales. The staff appraisal reviewer must date and sign the written justification specifically citing the data used in arriving at the decision to make the increase. All such data must be attached to the appraisal report and any addendum.

[c. Processing of Appeals - Over 2 Percent - Submission to VA. The procedures for submitting reconsideration of value requests to VA under the LAPP program are the same as for cases when VA has issued a certificate of reasonable value with the exception that a clear copy of the fee appraiser's appraisal report and all attending information, including photographs, must be submitted to VA along with the request. After VA has completed its review and made a value determination, a letter will be sent to the LAPP lender advising them of VA's decision. The lender will then notify the veteran of the revised value on an amended notification of value letter or send a letter on the lender's letterhead which notifies the veteran of the revised value or VA's decision not to increase the value determination.]

21.08 ASSISTANCE AND COOPERATION OF FEE APPRAISER

LAPP staff appraisal reviewers shall contact VA fee appraisers directly when the information or methodology contained in the appraisal report requires clarification, correction or additional support to make a prudent decision on the reasonableness of the fee appraiser's market value estimate. VA fee appraisers are expected to be cooperative with lenders in addressing concerns with the content of their appraisal reports. Lenders are expected to take reasonable actions in mitigating difficulties encountered with fee appraisers' appraisal reports. VA should not be considered a "referee" between the lender and fee appraiser in addressing what are considered routine items. When the staff appraisal reviewer determines that there are substantive problems with the fee appraiser's report, which are not correctable after and through reasonable actions with the fee appraiser, the lender will forward the appraisal report to the Construction and Valuation Section of the VA regional office of jurisdiction along with a written report clearly outlining the difficulties encountered and specifically noting the contacts made with the fee appraiser and the dates. Such information is of assistance in monitoring the performance of fee appraisers and in any

administrative actions necessary. As noted in paragraph 21.07a, any revisions, corrections, clarifications by a fee appraiser to the appraisal report must be in writing, attached by the lender to the appraisal report provided by the fee appraiser, and ultimately provided to VA. Any case in which it is found that any appraisal documentation was withheld will constitute an unacceptable act and may be considered a basis for administrative action against the lender and/or fee appraiser.

21.09 MPR REPAIR REQUIREMENTS/LAPP LENDER'S AUTHORITY

Lenders are responsible for ensuring that properties processed under LAPP meet VA minimum property requirements. If the lender's staff appraisal reviewer disagrees with the fee appraiser's repair recommendations, he/she may request the fee appraiser to reconsider the appropriateness of the repair requirements or may take the action to remove the requirements provided the aggregate cost of the repair item(s) is equal to the lesser of \$500 or one-half of 1 percent of the recommended value of the property and the repair items are clearly minor, nonstructural or of an uncomplicated nature or are non-MPR or cosmetic. Lenders must exercise prudent judgment when dealing with repair requirements. When the lender's staff appraisal reviewer removes a repair requirement(s), the justification for the action must be fully supported and adequately documented on an attachment to the appraisal report (see par. 21.06). Such documentation should normally include an inspection of the property. Any appeal of the propriety of repair items costing in excess of the dollar limitations (the lesser of \$500 or one-half of 1 percent of the recommended property value) must be referred to the VA regional office for consideration. A copy of the fee appraiser's appraisal report and photographs of the subject property will accompany such a request. When a veteran is under contract, after having been advised of VA minimum property requirement deficiencies, the request for reconsideration shall be accompanied by a letter signed by the veteran and lender. If the property cannot reasonably be repaired to meet the minimum property requirements, the LAPP lender's staff appraisal reviewer may decline to issue the notification of reasonable value letter to the veteran and shall instead advise the veteran by letter that the property is not acceptable security. In all such cases, a copy of the appraisal (URAR) and all photographs and addenda will be forwarded to the VA regional office with the lender's letterhead, along with a copy of the letter to the veteran.

21.10 PUDS OR CONDOMINIUMS

a. The lender is required to take appropriate steps to assure that a PUD or condominium project has been accepted, or conditionally accepted, by VA, HUD, or USDA (FmHA (Farmers Home Administration))[, or that it can certify that the project qualifies as an existing PUD as provided in paragraph 16.13,] prior to requesting the appraisal and subsequently processing it under LAPP.

If the lender discovers that the subject is located in an unaccepted project, processing should be suspended immediately. No notification of the reasonable value shall be issued by the LAPP lender until the project has been accepted or conditionally accepted by VA, USDA or HUD. The lender must ensure that the required information is submitted to the appropriate VA, USDA or HUD, office and that the project is subsequently or conditionally accepted before processing is resumed. If the project is rejected and cannot be accepted, the property is not eligible for VA financing.

b. VA fee appraisers must comment on the adequacy of the monthly condominium assessment based upon their opinion of the adequacy of the project's budget and as compared to competitive projects. The appraiser must indicate the current monthly condominium fee and which utilities are/are not included (e.g. none, water, sewer, electric, gas, heat, air conditioning). If the assessment is considered inadequate the appraiser must provide a recommended "fair" or "market" assessment. Lenders are to give appropriate consideration to the current or recommended condominium assessment, including the utilities included, in the loan underwriting decision (see par. 5.13).

21.11 LEASEHOLD ESTATES

Generally, cases involving leasehold estates may not be processed under LAPP. An exception may be made by the regional office when the regional office has accepted leaseholds in the area in accordance with existing Manual M26-2 instructions. If leaseholds are typical for the area, the regional office may determine that staff appraisal reviewers can properly process appraisal reports and make proper reasonable value determinations for such properties. Regional offices are to ensure that LAPP lenders do not process cases when leaseholds have not been previously accepted by VA.

21.12 LAPP LENDER'S DETERMINATION OF REASONABLE VALUE

A value recommendation, based upon an acceptable appraisal report, which has the concurrence of the lender's staff appraisal reviewer shall be considered as the "reasonable value" of the property. The aggregate of any loan secured by the property plus the amount of any assessment resulting from special improvements for which there may be a lien or right to a lien against the property may not exceed the reasonable value determination. The related loan shall not exceed the amount determined by the staff appraisal reviewer to be the "reasonable value" of the property, or the "revised reasonable value" after the proper processing of an appeal, plus the funding fee if it is to be included in the loan. The loan term may not exceed the lesser of 30 years and 32 days or the estimated economic life indicated in the cost approach section on the back of the URAR. LAPP lenders are not authorized to adjust the fee appraiser's remaining economic life estimate. All requests for revision of the fee appraiser's economic life estimate must be forwarded to VA. The lender's staff appraisal reviewer must circle the market value estimate and affix the signed and dated stamp required by paragraph

21.06e to the back of the URAR in the cost approach or reconciliation block in a manner which least obscures information on the report.] The space for the "[Supervisory] Appraiser" at the bottom of the form must not be used since it is for use only by the cosigner of the report when such practice is allowed (VA does not allow the appraisal to be delegated to some other party).

21.13 LAPP LENDER NOTIFICATION OF REASONABLE VALUE LETTER

Lenders must notify the veteran-borrower of the reasonable value determination and provide him/her with a copy of the reviewed appraisal report as soon as possible. Any delay of more than 5 workdays between the date of the lender's receipt of the fee appraiser's report and the date of the notification of value to the veteran, without reasonable and documented extenuating circumstances (e.g., additional information required of fee appraiser or an appeal of value processed by lender), will not be acceptable. The notification of reasonable value to the veteran will be transmitted by letter on the lender's letterhead which must include the appropriate information noted in paragraph 23.01. The lender may include any other information in the transmittal letter in addition to the information required by VA. THE LENDER SHALL NOT ISSUE VA FORM 26-1843, CERTIFICATE OF REASONABLE VALUE, OR ANY OTHER DOCUMENT WHICH MAY BE CONSTRUED AS A CERTIFICATE OF REASONABLE VALUE. Paragraph 21.15 provides guidance in a number of areas to assist in ensuring that appropriate conditions of VA loan guaranty are considered by the LAPP staff appraisal reviewer.

21.14 COPY TO VA OF URAR AND LAPP LENDER NOTIFICATION OF REASONABLE VALUE LETTER

In all cases, the lender will furnish the VA regional office of jurisdiction a copy of the appraisal report and all addenda, including copies of all pictures of the subject and comparables, as reviewed by their staff appraisal reviewer, and a copy of the lender's notification of reasonable value to the veteran, on the same date the veteran is notified of the reasonable value determination. The requirement for providing a copy of the appraisal to VA is contained in the statute authorizing LAPP. These copies will be used by VA to monitor the making of the appraisals by the appraisers and the effectiveness and efficiency of the determination of reasonable value by the lender. When the fee appraiser provided a revised appraisal report, copies of both the initially submitted and the revised reports must be submitted together to the VA regional office.

21.15 OTHER CONSIDERATIONS IN PROCESSING LAPP CASES

The following items are brought to LAPP lenders' attention for consideration to assist in proper processing and assure that appropriate conditions and requirements are noted and can be satisfied to meet VA Loan Guaranty Program requirements. This information is for guidance only and is not all encompassing.

June 17, 1994

a. Additional Requirements and Special Conditions. Additional requirements of the VA regional office of jurisdiction over the location of the subject property with respect to special conditions upon which the reasonable value determination is predicated; e.g., requirements for wood destroying insect information, health authority approval of individual water and/or sewage disposal systems, code enforcement areas, lead-based paint, shall be met and appropriate evidence in the form required by VA regional office provided with cases submitted to VA for loan guaranty.

b. Evidence of Insurance-Backed Warranty Plan. In appropriate cases, the lender must provide evidence of enrollment of the property in a VA accepted 10-year insurance-backed warranty plan with the submission for loan guaranty. In such cases, the lender's letter to the veteran must advise that, since the property was not inspected by VA or FHA during construction, the property will not qualify for Government assistance in the correction of structural defects.

c. Flood Hazard Areas. Flood insurance must be obtained for any property located in an area designated by FEMA (Federal Emergency Management Agency) as having special flood hazards for which the sale of flood insurance is available under NFIP (National Flood Insurance Program). The amount of flood insurance required will be equal to the outstanding balance of the loan or the maximum limit of coverage available for the particular type of property under the NFIP, whichever is less. VA fee appraisers are required, whenever possible, to indicate when properties are located in flood hazard areas and to note that flood insurance is required. However, it is the lender's ultimate responsibility to make sure no loan is closed without flood insurance if the property is in a special flood hazard area and flood insurance is available. If a property is located in a special flood hazard area and flood insurance coverage is not available, the property is not eligible for a VA guaranteed loan. LAPP lenders must maintain up-to-date flood maps [or employ some other method to assist them in complying with their responsibility of ensuring that flood insurance is obtained in appropriate cases]. Map orders, or questions concerning map orders, should be directed to [the Federal Emergency Management Agency.]

d. Lead-Based Paint/Properties Near Airports. Paragraphs 13.11 and 10.07, respectively, are applicable to lead-based paint in existing properties and to the appraisal of properties near airports, respectively.

e. Safe Drinking Water Act. The lender's notification of reasonable value letter in cases involving existing not previously occupied construction, or existing resale construction, for which a building permit application is dated on or after June 19, 1988, or which involve substantial rehabilitation and alterations, improvements, or repairs to the potable water distribution system, must be conditioned to require a certification from the builder or

contractor that any solders and flux used in construction did not contain more than 0.2 percent lead and any pipes and pipe fittings used did not contain more than 8.0 percent lead. (Public Law 99-339, Section 109, Safe Drinking Water Act Amendments. See par. 23.04.)

21.16 SATISFACTION OF REPAIR REQUIREMENTS

The lender must provide evidence that repair requirements outstanding on the URAR have been satisfied when the case is submitted for loan guaranty. Such evidence will be provided in accordance with the instructions issued by the VA regional office of jurisdiction over the location of the property or as follows:

a. Completion of an inspection by a VA fee appraiser or compliance inspector as evidenced by VA Form 26-1839, Compliance Inspection Report, or on their letterhead if acceptable to the VA regional office, evidencing that the repairs outstanding on the URAR have been satisfactorily completed. In the preponderance of cases, the appraiser who completed the appraisal report would be expected to make the determination that the required repairs were acceptably completed. When the fee appraiser who was assigned by VA to do the appraisal is unable to conduct the inspection, the lender must request the assignment of another fee appraiser or a compliance inspector from the VA regional office. The lender must provide the newly assigned fee appraiser or compliance inspector with appropriate information concerning the repair item (in most cases a copy of the URAR) and advise that the case is being processed under the Lender Appraisal Processing Program, so the completed compliance inspection report will be sent directly to the lender for processing and not VA. The lender's staff appraisal reviewer will review the completed inspection report or letter noting completion and, if satisfied, will sign and date the report or letter.

b. The lender may provide a written certification that the outstanding repair requirements have been satisfied when the item is minor, uncomplicated, or of a nonstructural nature. The lender's staff appraisal reviewer makes the determination whether the items can be considered minor, uncomplicated or nonstructural. [In all cases, however, repairs relating to 'defective paint conditions' must be inspected after completion by VA fee or staff personnel.] The lender certification procedure is similar to that used when VA issues the certificate of reasonable value. A certification from a licensed contractor or home inspection firm cannot be used as a substitute for the lender's certification although such a statement may be used by a lender to support the decision to make the required certification. Under LAPP VA will not become involved with any escrows for uncompleted items. As general guidance, repairs should be completed except in those rare instances when they cannot be completed for reasons beyond control

such as extreme weather conditions; i.e., exterior painting in the cold winter months. If the lender, however, establishes an informal escrow or an earmarked account, the amount held should equal at least 150 percent or more of the cost of the item to ensure the lender has adequate funds to complete the repairs if the parties to the transaction fail to perform as necessary. In such cases, evidence of guaranty will be issued when VA Form 26-1820, Report and Certification of Loan Disbursement, is appropriately completed indicating that the funds intended for completion of repairs are being held by the lender in an escrow or earmarked account. Lenders must provide written notification to the VA regional office when the repairs are subsequently completed and the escrow/earmarked funds are disbursed. When disbursing these funds, lenders must assure that the costs of the repairs have been paid. If, after a reasonable period, the lender determines that the repairs will not be completed, they will take appropriate steps to ensure the repairs are acceptably completed. In general, the repairs should be completed within 90 to 120 days of loan closing. VA will expect to receive evidence of completion by inspection report or lender certification within that time period.

21.17 TITLE LIMITATIONS

When, subsequent to examination of title and prior to loan closing, the lender, or other interested party, discovers title conditions or limitations which are not recited on VA Form 26-1805 and/or not considered by the fee basis appraiser in the appraisal report, AND-THE CONDITION IS NOT LISTED in paragraph 12.10 as not materially affecting the reasonable value of residential property, the lender must submit the information to the VA regional office for processing. If referred to the regional office, a copy of the appraisal report must be provided. Lenders are advised that referrals to VA for items that are listed in paragraph 12.10 will not, in any instance, be processed and will be returned to the requester with an appropriate notation from the VA regional office stating the basis for the return.

21.18 COMPLAINTS

All complaints made to the lender involving cases processed under LAPP concerning the condition of the property or the performance of the fee appraiser must be referred or forwarded to the VA regional office having jurisdiction over the location of the property. VA regional office staff will process the complaint in accordance with VA guidelines.

21.19 SUBMISSION OF CASE TO VA FOR GUARANTY

The original of the fee appraiser's appraisal report (URAR), as reviewed by the lender's staff appraisal reviewer, all attending information provided by the fee appraiser including original photographs, or listing service photographs, as well as any revisions made by the fee appraiser, and the lender's notification

letter to the veteran, shall be included in the package submitted to VA for loan guaranty. Also included will be, as applicable, compliance inspection reports or letters, lender repair certifications, wood destroying insect information, individual water and/or sewage system approval information, and any other necessary documents to comply with outstanding requirements or special conditions for the specific case.

21.20 VALIDITY PERIOD/EXPIRATION OF THE APPRAISAL

The appraisal is valid from the date the fee appraiser performed the appraisal and signed the URAR for a specific period of time. The appraisal will be considered valid for the lesser of 6 months or the validity period established and specified in a local release by the VA regional office of jurisdiction. When a veteran is under a valid sales contract and involved in a mortgage transaction with the LAPP lender who requested the assignment of the fee appraiser, the appraisal shall remain effective after the validity period has expired until the transaction is either consummated or terminated. The appraisal will not be considered valid in those cases when the 6-month period, or other period established by the VA regional office, has passed and the veteran elects to go to another lender to consummate the mortgage transaction. In such cases, the subsequent lender, whether it has LAPP authority or not, may not use the original appraisal and must order a new appraisal assignment which may be under LAPP if the subsequent lender has been delegated LAPP authority by VA. Alternatively, the subsequent lender may submit a complete copy of the original appraisal report and all addendums and photocopies to the regional office having jurisdiction which will review the report and, if determined appropriate, issue a CRV for the property. If a CRV cannot be issued, the regional office will advise the lender to process a new appraisal request.

21.21 APPRAISAL PROCESSED UNDER LAPP AND SUBMITTED TO VA FOR CREDIT UNDERWRITING ON THE PRIOR APPROVAL BASIS

a. There will be instances when the lender processes the appraisal under LAPP but the case is then submitted to VA for credit underwriting on the prior approval basis. Such cases provide the opportunity for VA staff to review the LAPP lender's staff appraisal review prior to loan closing. It is not required or intended that all LAPP cases submitted to VA for credit underwriting purposes also be reviewed by Construction and Valuation staff for appraisal purposes. Regional offices have the authority to select the prior approval cases which Construction and Valuation Staff will then review for quality of the lender's appraisal review and the effectiveness and efficiency of the lender's determination of reasonable value. Cases which are marginal from a credit underwriting standpoint should be strongly considered for VA staff appraisal review since certain aspects of the appraisal, if not properly considered, could increase the risk

of default (e.g., an older property in which required MPR repairs were not properly considered or recommended, or a property in which seller incentives for the comparables were not appropriately considered or adjusted for.) Furthermore, since the statute requires that VA not only monitor the making of appraisals by appraisers but also the effectiveness and efficiency of the determination of value by lenders, LAPP cases submitted for processing on the prior approval basis are one method of satisfying requirements of the statute.

b. In cases submitted by LAPP lenders on the prior approval basis, the LAPP staff appraisal reviewer shall have made the reasonable value determination and transmitted the notification of value letter to the veteran. The original of the fee appraiser's appraisal report (URAR), as reviewed by the lender's staff appraisal reviewer, all attending information provided by the fee appraiser including the photographs, and a copy of the lender's notification letter to the veteran, shall be provided with each LAPP case submitted on the prior approval basis. In addition to the above requirements, all information requirements of the VA Loan Processing Section related to an automatic lender submitting cases on the prior approval basis must be met.

21.22 CONVERTIBILITY OF APPRAISALS ORDERED THROUGH HUD

a. It is recognized that in some instances the lender will have ordered the appraisal assignment on the rotational basis from HUD because the case initially involved HUD/FHA financing and for valid reasons the original deal may "fall through" and subsequently a veteran-purchaser desiring VA financing contracts to purchase the property or the purchaser subsequently "switched" financing after the appraisal was ordered. If the fee appraiser assigned by HUD is also a member in good standing of the VA fee panel and the property is eligible to be processed under LAPP authority, the LAPP lender may use that appraisal for VA financing purposes. In such cases, the LAPP lender will use the telephone assignment procedure to request the LAPP case number but will clearly identify that they are using a HUD rotationally assigned fee appraiser who is also on VA's fee panel, noting the appraiser's full name and providing all other information required by the regional office assignment procedure.

b. Lenders are expected to use the VA assignment system when the case involves a VA contract from the outset, thereby restricting instances when the HUD system is used to those cases when the FHA deal "fell through" or the purchaser "switched" to VA financing after initially pursuing FHA financing. VA regional offices may require the lender to provide a written statement and/or evidence of the circumstances of the case to satisfy themselves of this fact. Manipulation of VA's or FHA's rotational assignment procedure (e.g., the appraiser assigned did not

complete the assignment and the transfer to another appraiser was not authorized by HUD or VA) is considered a basis for removal or suspension action as described in this handbook. VA regional offices will expand fee panels solely to accommodate appraisers who are also on HUD's fee roster to address these cases.

21.23 TRANSFER OF APPRAISAL REPORTS IN LAPP CASES

The veteran, or in some instances some other party to the transaction, may have reason to seek another lender after the lender initially contacted has reviewed the fee appraiser's appraisal report (URAR) and issued its notification of reasonable value letter to the veteran. The LAPP lender's notification of reasonable value letter not transferable to another lender. However, the URAR may be used by another LAPP lender provided their staff appraisal reviewer performs a complete review of the report and the lender issues, on its own letterhead, a notification of reasonable value letter to the veteran. The receiving lender is fully responsible for the quality of the appraisal and for complying with all outstanding instructions and LAPP processing requirements. Lenders are expected to cooperate on a reciprocal basis in such cases. Original copies of the URAR, all addendums and clear copies of all pictures may be obtained from the fee appraiser. If the fee appraiser needs to reproduce or obtain new photographs, he or she may negotiate a reasonable fee to "transfer" a case as herein described. The lender or the veteran may pay the fee. If the subsequent lender does not have LAPP authority, all appraisal documents must be submitted to the VA regional office of jurisdiction for review and issue of a CRV.

June 17, 1994

VA Pamphlet 26-7
Change 16

CONTENTS

CHAPTER 22. WITHDRAWAL OF SPECIAL PRIVILEGE UNDER LAPP

<u>PARAGRAPH</u>	<u>PAGE</u>
22.01 Amendment, Removal or Withdrawal of LAPP Authority	22-1
22.02 General Basis for Administrative Actions	22-1
22.03 Notification and Length of Administrative Action Period	22-2
22.04 Right of Appeal to [Under Secretary for Benefits]	22-2
22.05 Decision of [Under Secretary for Benefits]	22-2
22.06 VA Issuance of CRV's When LAPP Authority Withdrawn	22-3
22.07 Other Administrative Actions	22-3

CHAPTER 22. WITHDRAWAL OF SPECIAL PRIVILEGE UNDER LAPP

22.01 AMENDMENT, REMOVAL OR WITHDRAWAL OF LAPP AUTHORITY

The special privilege extended to the lender to determine reasonable value may be withdrawn, removed, or amended by the Loan Guaranty Officer when proper cause exists and the lender is without operations in other regional offices' jurisdictions. All determinations regarding withdrawal of LAPP authority for requirements of the authority extended under this section, as determined by VA, VA may take any of the following actions:

a. Withdrawal of the special privilege when:

(1) The lender no longer meets the established basic requirements; or

(2) The lender's reasonable value determinations are arrived at in a manner not in accordance with the requirements and procedures contained in VA regulations, guidelines, instructions or applicable laws.

b. Reinstatement of probationary period for a specified duration for the purpose of evaluating lender's compliance with the requirements for making the reasonable value determination, which could include VA office review of lender's reasonable value recommendations prior to loan closing.

22.02 GENERAL BASIS FOR ADMINISTRATIVE ACTIONS

Withdrawal action may be initiated when there is sufficient information or adequate evidence to support reasonable belief that an unacceptable act, practice or performance by the lender or the lender's staff has occurred. Such acts, practices or performance include, but are not restricted to:

a. Demonstrated technical incompetence (i.e., conduct demonstrating insufficient knowledge of industry accepted appraisal principles, techniques and practices, or the lack of technical competence to review appraisal reports and make value determinations in accordance with those requirements);

b. Substantive or repetitive errors (i.e., any error(s) of a nature that would materially or significantly affect the determination of reasonable value or condition of the property or a number of series of errors that, considered individually, may not significantly impact the determination of reasonable value or property condition, but which, in the aggregate, would establish that appraisal reviews or LAPP case processing are being performed in a careless or negligent manner); and/or

c. Continued instances of disregard for VA requirements after having been called to the lender's attention.

22.03 NOTIFICATION AND LENGTH OF ADMINISTRATIVE ACTION PERIOD

Withdrawal of authority by the Loan Guaranty Officer may be for an indefinite or a specified period of time. For any withdrawal longer than 90 days, a reapplication for lender authority to process appraisals will be required. Written notice will be provided at least 30 days in advance of withdrawal unless the Government's interests are exposed to immediate risk from the lender's activities in which case the withdrawal will be effected immediately. The notice will clearly and specifically set forth the basis and grounds for the action. There is no right to a formal hearing to contest the withdrawal of LAPP processing privileges. However, if within 15 days after receiving notice the lender requests an opportunity to contest the withdrawal, the lender in person, in writing, or through a representative, may submit information and argument to the Loan Guaranty Officer in opposition to the withdrawal. The Loan Guaranty Officer will make a recommendation to the Regional Office Director for a determination as to whether the action should be sustained, modified or rescinded. The lender will be informed in writing of the decision.

22.04 RIGHT OF APPEAL TO [UNDER SECRETARY FOR BENEFITS]

The lender has the right to appeal the Regional Office Director's decision to the [Under Secretary for Benefits]. In the event of such an appeal, the [Under Secretary for Benefits] will review all relevant material concerning the matter and make a determination that shall constitute final Agency action. If the lender's submission of opposition raises a genuine dispute over facts material to the withdrawal of LAPP authority, the lender will be afforded an opportunity to appear with a representative, submit documentary evidence, present witnesses and confront any witness the Veterans Benefits Administration presents. The [Under Secretary for Benefits] will appoint a hearing officer or panel to conduct the hearing. When such additional proceedings are necessary, the [Under Secretary for Benefits] shall base the determination on the facts as found, together with any information and argument submitted by the lender.

22.05 DECISION OF [UNDER SECRETARY FOR BENEFITS]

In actions based upon a conviction or civil judgment, or where there is no genuine dispute over material facts, the [Under Secretary for Benefits] shall make a decision on the basis of all the information in the administrative record, including any submission by the lender.

22.06 VA ISSUANCE OF CRV'S WHEN LAPP AUTHORITY WITHDRAWN

Withdrawal of LAPP authority will require that VA make subsequent determinations of reasonable value for the lender. Consequently, VA staff will review each appraisal report and issue a certificate of reasonable value which can then be used by the lender to close loans on either the prior approval or automatic basis.

22.07 OTHER ADMINISTRATIVE ACTIONS

Withdrawal by VA of the lender's LAPP authority does not prevent VA from also withdrawing automatic processing authority or taking debarment or suspension action based upon the same conduct by the lender.

June 17, 1994

VA Pamphlet 26-7
Change 16

CONTENTS

CHAPTER 23. SPECIAL INSTRUCTIONS AND GUIDELINES

<u>PARAGRAPH</u>	<u>PAGE</u>
23.01 Lender's Notification of Reasonable Value Letter to Veteran	23-1
23.02 Existing Construction Covered by VA Accepted 10-Year Protection Plan	23-2
23.03 Appraisal Review Guidelines	23-3
23.04 Safe Drinking Water Act	23-5

CHAPTER 23. SPECIFIC INSTRUCTIONS AND GUIDELINES

23.01 LENDER'S NOTIFICATION OF REASONABLE VALUE LETTER TO VETERAN

a. For the purpose of notifying the veteran of the lender's reasonable value determination, as well as any conditions specific to the property which must be met prior to guaranty of the loan by VA, the lender shall provide the veteran with a transmittal letter on the lender's letterhead which contains the following information. (The lender may add any additional information it deems necessary, provided

"On (date) our VA authorized staff appraisal reviewer personally reviewed the appraisal report completed by the VA fee appraiser who was assigned to VA case (number), for (property address), by the VA (cite office) Regional Office. Based upon the review by our staff appraisal reviewer, our reasonable value determination for this property is \$(amount). [] The maximum loan term is (number of years economic life" estimated by fee appraiser or 30 years whichever is less).

b. The following specific conditions apply to this property. (Lenders will list all appropriate conditions relating to the subject property. The following items should provide assistance in determining conditions but is not an all inclusive list.)

(1) The property conforms to VA's minimum property requirements "as is."

(2) The property will conform to VA's minimum property requirements subject to satisfactory completion of the following repairs as evidenced by (VA compliance inspection by name of inspector) or (lender certification).

(List MPR repairs recommended by fee appraiser and concurred in by the staff appraisal reviewer.)

(3) Health Authority Approval. Execution of Health Authority form or letter from a source authorized by VA indicating approval of the individual _____ water supply and/or _____ sewage disposal system.

(4) Wood Destroying Insect Information - Existing Construction. The seller shall, at no cost to the veteran-purchaser, prior to settlement, obtain a written statement from a qualified pest control other form acceptable to VA. on the other form acceptable to VA. The veteran-purchaser will acknowledge receipt of a copy of the statement in item [14] of VA Form 26-8850 or on the other form acceptable to VA.

June 17, 1994

(5) Flood Hazard Area. Since this property is located in a special Flood Hazard Area as established by FEMA, flood insurance will be required in accordance with 38 CFR 36.4326 and Section 102 of Public Law 93-234, Flood Disaster Protection Act of 1973.

(6) [Energy Efficient Mortgage Program]. The buyer may wish to contact a qualified person/firm for a home energy audit to identify needed energy efficiency improvements to the property. In some localities, the utility company may perform this service. The mortgage amount may be increased as a result of making energy efficiency improvements (i.e., solar or conventional heating/cooling systems, water heaters, insulation, weather-stripping/caulking, and storm windows/doors). Other energy related improvements may also be considered. The mortgage may be increased by (a) up to \$3,000 based solely on documented costs; or, (b) up to \$6,000 provided the increase in monthly mortgage payments does not exceed the likely reduction in monthly utility costs; or (c) more than \$6,000 subject to a value determination by VA.]

(7) Insured 10-Year Protection Plan

(a) All Cases. This property is, or will be, enrolled in an insured 10-year protection plan accepted by [HUD]. Evidence of enrollment in the accepted plan is required prior to VA guaranty of the loan related to this property.

(b) Proposed Construction Cases. Final inspection only is required. The letter must also identify who is to complete the final inspection.

(c) Existing Construction Cases. Written acknowledgment from the veteran-purchaser that he or she is aware that the property was not inspected during construction by either VA or HUD, and as such will not qualify for Government assistance in the correction of structural defects, and that VA will not intercede on the veteran's behalf in the processing of construction complaints.

(8) Important Notice to the Veteran. VA has had an appraisal made of this property to determine its reasonable value for loan purposes. This appraisal, however, does not assure that the home will be -satisfactory to you in all respects or that all equipment will operate properly.

(a) A thorough inspection of the property by you or a reputable inspection firm may help minimize any problems that could arise after loan closing. Particular attention should be given to plumbing, .heating, electrical and roofing components.

(b) REMEMBER: VA guarantees the loan, not the condition of the property.

June 17, 1994

VA Pamphlet 26-7

Change 16

[(9) CABO (Council of American Building Officials) MEC (Model Energy Code) Compliance Certification. [If the property is existing construction, less than 1 year old, not previously occupied and there is no clear indication that the construction actually begun prior to October 24, 1993, the building must provide a certification which identifies the dwelling and states that it was constructed to meet the energy conservation standards of the Council of American Building Officials' 1992 Model Energy Code.]]

23.02 EXISTING CONSTRUCTION COVERED BY AN INSURED 10-YEAR
PROTECTION PLAN

a. There is no prohibition against preselling to veteran-purchasers, or advertising the availability of VA financing in advance of completion of construction or before the customer preference item stage is reached.

b. Existing construction which is fully complete except for customer preference items; e.g., interior finishes, appliances, equipment, and those improvements for which escrows are permissible due to conditions beyond the builder's control, may be accepted for appraisal provided it is determined that the property

23-2a

meets or exceeds VA minimum property requirements for existing construction. Also, it will be indicated to the veteran in the lender's notification letter that the property was not inspected by VA or FHA during construction, and as such will not qualify for Government assistance in the correction of structural defects.

c. To meet eligibility requirements, [the insured 10-year protection plan must have been determined to be acceptable by HUD and listed on the current HUD "List of Active Insured 10-Year Protection Plans" (App. 10, HUD Handbook 4145.1) or other official HUD document.]

d. Evidence of enrollment of the property in the [insured 10-year protection] plan must be submitted with the related loan report or certification of loan disbursement at the time of the request for guaranty.

23.03 APPRAISAL REVIEW GUIDELINES

The importance of care and sound judgment in the proper review of appraisal reports cannot be overstated. When the information or methodology contained in an appraisal report requires additional clarification or support, the LAPP staff appraisal reviewer shall contact and obtain from the fee appraiser the information necessary to make a prudent decision on the reasonableness of the value estimate. The following guidelines are provided to assist LAPP staff appraisal reviewers in appraisal reviews and represent areas/items which should cause the staff appraisal reviewer to question the fee appraiser's appraisal analysis and/or methodology. This is not an all-encompassing list which lessens or limits the importance of other considerations. It shall not be used as a checklist. The areas/items are as follows:

a. Use of comparables over 12 months old must have an adequate explanation. In some real estate markets, the use of comparables over 6 months old may be considered outdated sales. Time adjustments should have a reasonable basis and large time adjustments must be explained.

b. The description of the proximity of the comparable to the subject must be specific (e.g., 3 blocks north). In metropolitan or suburban areas, comparables normally should be located close to the subject while in rural areas distances of several miles may be the norm. Comparables located outside of what would be considered the subject's market area must be fully explained by the fee appraiser.

c. Use of contract sales, unsettled sales, and listings in the market data analysis section of the appraisal report is generally not acceptable. VA will consider the use of such data acceptable if used in addition to closed sales to support the time adjustments and the reasoning process supporting the valuation determination. When such "sales" are used, they must be clearly identified and their use fully explained.

d. The reviewer should question large individual and/or total net adjustments to the comparables to determine if the fee appraiser selected proper comparables or made individual adjustments according to cost or some factor other than market reaction. Generally, the proper selection of comparables minimizes the size of individual adjustments and total net adjustment. In line with this, a wide range in comparable sales prices (e.g., \$60,000 to \$120,000) should also be questioned by the reviewer, unless an adequate explanation has been provided.

e. Fee appraisers are required to provide pictures which clearly depict comparables employed in the market data analysis section of the appraisal report. Careful review of the pictures can reveal instances in which the appraiser should be questioned relative to comparable selection or other factors such as the failure to adjust for amenities readily visible in the picture (e.g., use of a brick 2-story in comparison to a frame 1-story subject or a comparable with a fireplace when the subject has none).

f. It is recognized that various sales or financing incentives may be offered by sellers, builders or lenders. Examples of these incentives include interest rate buy downs, giveaways or the inclusion of non realty items into the transaction, closing costs customarily paid by the buyer, loan discount points and origination fees, among others. The fee appraiser should consider and report the effects of such seller-paid incentives on the comparables in the appraisal report when such information is available and ascertainable through reasonable investigation. It must also be recognized that the effect of creative financing or sales incentives on sales prices can vary in different locales. Adjustments as a rule should not be based upon a straight arithmetical dollar-for-dollar basis equal to the cost of the incentives to the seller. The amount of any adjustment should be based upon the general real estate market reaction to the incentive. In all instances, the fee appraiser must explain the basis for any adjustments) for financing or sales incentives. An adjustment without an adequate explanation is not acceptable. Additionally, in proposed construction cases the fee appraiser should generally consider closed sales, resales of similar properties, and sales of competing builders and other sellers in determining if adjustments for financing or sales incentives are appropriate.

g. An appraisal report is unacceptable if there is any finding that the fee appraiser's analysis is not based upon recognized appraisal practices and was intended to "accommodate" or "meet" the sale price. In such cases the LAPP lender shall not determine reasonable value and shall refer the case, along with a written report outlining findings, to the VA regional office having jurisdiction for review.

23.04 SAFE DRINKING WATER ACT

a. Amendments to the Safe Drinking Water Act, Public Law 99-339, Section 109, approved June 19, 1986, provide for a ban on lead water pipes, solder, and flux in certain instances which involve VA assistance.

b. The statute states that effective June 19, 1988, VA may not guarantee a mortgage or furnish assistance with respect to newly constructed residential property which contains a potable water system unless such system uses only lead free pipe, solder and flux.

c. The term "lead-free" is defined in the statute with respect to solders and flux as containing not more than 0.2 percent lead and with respect to pipes and pipe fittings as containing not more than 8.0 percent lead.

d. If the proposed water distribution system in a house or living unit [] will contain lead piping and lead soldered joints or fittings the builder or contractor shall provide a certification that the lead content of solders and flux will not be more than 0.2 percent lead and that the lead content of pipes and pipe fittings will not be more than 8.0 percent lead.

e. Lenders, builders and brokers are advised that each determination of reasonable value for proposed construction, existing construction not previously occupied[, and cases involving] substantial rehabilitation and alterations, improvements, or repairs which involve the potable water distribution system will be conditioned to require a certification that in construction any solders and flux used did not contain more than 0.2 percent lead and any pipes and pipe fittings used did not contain more than 8.0 percent lead.

APPENDIX

VA FORMS AND THEIR USES

Listed below are VA forms frequently used by lenders and other program participants in connection with the processing, closing, and guaranty of VA loans. Questions concerning the use of the forms, acceptable alternative forms, or the existence of VA forms for purposes not covered in this appendix may be directed to local VA offices.

VA Form 26-0500, Notification to Mortgagee of Funding Fee Shortage. This is generated by the lockbox depository to advise the lender of a shortage in the funding fee as computed from the loan information provided on VA 26-8986. The shortage amount should be remitted to the depository with the preprinted VA 26-8986 which will accompany the VA 26-0500 received by the lender. References: Pars. [4.03c(5); 4.04b(5) and d(4); 4.08b(4)(d); and 6.10e(2)].

VA Form 26-0503, Federal Collection Policy Notice. To be signed by the veteran-borrower(s) as acknowledgment of the actions the Federal Government may take in the event a VA-guaranteed loan becomes delinquent or the borrower(s) default on the loan, this notice must be included in every VA loan submission. References: Par. 4.08b(3) and [(4)(f)].

VA Form 26-0546, Assessment of Late Fee. The lockbox depository notice to the lender that its funding fee remittance was received beyond 15 days of the loan closing date, it will advise of the late fee due VA. References: Par. [6.11b] and b(3).

VA Form 26-0547, Assessment of Late Fee and Interest. The lockbox depository notice to the lender that its funding fee remittance was not received within 30 days of loan closing, it will advise of the late fee and interest due VA. References: Par. [6.11b] and b(3).

VA Form 26-0548, Receipt of Late Fee and Accrued Interest. The lender's receipt for payment of late fee and/or interest assessed on VA 26-0546 or VA 26-0547. The VA 26-0548 receipt and the assessment notice, VA 26-0546 or VA 26-0547, must both be included in the loan closing package submitted for VA guaranty. Reference: Par. [6.11b(3)].

VA Form 26-0551, Debt Questionnaire. This questionnaire has to be completed and signed by the veteran-borrower(s) to provide information regarding prior VA loans and potential indebtedness to the United States government. It need not be included in any case for which a completed, signed VA 26-1802A application is in file. []

[VA Form 26-0592, Counseling Checklist for Military Homebuyers. To be signed by a borrower who is on active duty military service as an acknowledgment of counseling and by the lender to certify that the borrower has been counseled.]

[VA 26-1802a/HUD Form 92900-A, HUD/VA Addendum to Uniform Residential Loan Application. This form contains statutory and regulatory information and certifications which are required for VA loan applications. It must be completed and submitted as an addendum to the Uniform Residential Loan Application for all loans except for interest rate reduction refinancing loans.]

VA Form 26-1805, VA Request for Determination of Reasonable Value/HUD Application for Property Appraisal and Commitment. Used to request VA Form 26-1843, Certificate of Reasonable Value, for an existing property or individual proposed construction. Check with your local VA office for proper disposition and routing as procedures may vary. References: Pars. 9.01; 9.02; 9.03; 9.04; 9.06; 9.08; 14.11b; 16.15; 17.05b; 17.06; 17.12; 21.04a; 21.05; and 21.17.

VA Form 26-1816, Rider for Application for Supplemental Loan. This form lists the repairs or improvements to be completed with the proceeds of a supplemental or home improvement loan. The lender completes the form and submits it with the loan application. Reference: Par. 4.09b.

VA Form 26-1817, Request for Determination of Loan Guaranty Eligibility - Unmarried Surviving Spouses. The application form to be used by an applicant for VA eligibility as the unmarried surviving spouse of a deceased, eligible veteran. Reference: Par. 2.03.

VA Form 26-1820, Report and Certification of Loan Disbursement. Used to report all closed home loans, both automatic and prior approval, to VA and to request guaranty of the loans. References: Pars. [1.07b(1), c(1) through (3), and e; 3.16c] and f; 4.03c(2); 4.04b(3), [d(1)]; 4.05b and [c(2)]; 4.06; 4.07d; 4.08b(3) and (4)(b); 5.07c(6); [] 12.06e(2); 12.08a; 14.10b; 17.07a; and 21.16b.

VA Form 26-1839, Compliance Inspection Report. This form is completed by the VA compliance inspector to report the results of an inspection of a property, when required by VA Form 26-1843, Certificate of Reasonable Value. It may authorize establishment of an escrow for completion of postponed improvements or repairs, as well as authority to disburse escrowed funds. References: Pars. [] 14.04d(3); 14.06a; 14.07; 14.08; 14.09b; 14.10b; 17.05c(1)(c); 17.10e(3); and 21.16a.

VA Form 26-1843, Certificate of Reasonable Value. This indicates the VA established reasonable value for the subject property, which also establishes the maximum loan amount. The validity period and any special conditions of the property valuation are set forth on this form as well. References: Pars. 3.16a; [4.02a]; [] 9.01a, b, [e(1)]; 11.02c; 12.01a; 12.02; 12.04; 12.05; 12.06; 12.07; 12.08; 12.09; 12.10; 13.04b(1); 14.04a; 14.07d; 15.01a; 16.05d(2); 16.10a; 17.05a; 19.09c; 20.02a; 21.13; and 22.06.

VA Form 26-1843a, Master Certificate of Reasonable Value. This form is used to advise interested parties of the reasonable values established for projects involving the proposed construction of five or more similar properties. A highlighted copy of this form should accompany each loan submission in the subject development. References: Pars. 4.03b(12) and (17); 6.15b; 6.22a; 9.01a; 12.01a; 12.03a; 12.05; 12.06b and c; 14.04a; 14.07d; 15.01a; and 16.10a.

VA Form 26-1844/HUD Form 92577, Request for Acceptance of Changes in Approved Drawings and Specifications. This form will be used or requests by builders, sellers and others on the acceptance of changes in approved drawings and specifications. Reference: Pars. 14.08b(2); 14.09 and 17.05e.

VA Form 26-1847, Request for Postponement of Offsite or Exterior Onsite Improvements-Home Loan. Used to identify any postponed improvements relative to a property. It is also the veteran's agreement to have the funds for the postponed improvements escrowed or otherwise completed at a later date. References: Pars. 4.09a; 6.19a and b; 6.20g, h, and i; and 6.21b(5).

VA Form 26-1849, Escrow Agreement for Postponed Exterior Onsite Improvements. This is the actual escrow agreement for exterior onsite improvements which describes the postponed work, funds escrowed, as well as the parties to the agreement (usually the builder, lender, and escrow agent). References: Pars. 4.09a; 6.19c and e; and 6.21b(3).

VA Form 26-1859/HUD Form 92544, Warranty of Completion of Construction in Substantial Conformity with Approved Plans and Specifications. The warranty that improvements have been completed in substantial conformity with the plans and specifications which were reviewed and accepted by VA. References: Pars. 4.03c(7); 4.04b(8); 6.25b and d; and 12.06d(1).

VA Form 26-1866, Certificate of Commitment. This is VA's commitment to the lender that it will guarantee a loan for which the lender submitted a prior-approval loan application to VA. References: Pars. 4.05(a); 4.08b(2).

VA Form 26-1880, Request for Determination of Eligibility and Available Loan Guaranty Entitlement. This form is used by the veteran as an application for a Certificate of Eligibility and/or restoration of entitlement. When used as a request by an applicant who has never used his/her entitlement, the form should be accompanied by the proof of service as explained on the reverse of the form. References: Pars. 2.03; 2.08b; 4.02; 4.03(2); 4.04c(2); 4.08b(1)(h) and (4)(a).

VA Form 26-1899, Loan Guaranty Certificate. This form is the evidence of guaranty which VA furnishes a lender for most home loans and manufactured home loans. References: Pars. 4.08b(5); and 7.01.

VA Form 26-1899a, Loan Guaranty Certificate (Joint Loan). This is evidence of VA guaranty of a joint loan involving two or more veterans. It stipulates VA coverage on each veteran's portion of the loan and the loan as a whole. Reference: Par. 7.01.

VA Form 26-6363, Endorsement to Certificate of Reasonable Value. This form is used for endorsements/changes to VA Form 26-1843, Certificate of Reasonable Value. It may be used to change the value, validity period, conditions, or correct the identification of the property.

VA Form 26-6378/HUD 92606, Escrow Agreement for Postponed Offsite Improvements. This serves the same escrow function as the VA Form 26-1849, except it is used for offsite improvements. References: Pars. 4.09a; 6.18a and b; 6.19c; 6.20g; and 6.21b(3)

VA Form 26-6393, Loan Analysis. Used by the underwriter to analyze the applicant's income and expenses, including the shelter expense for the proposed home loan. The loan decision, with supporting or explanatory remarks, is indicated on this form. References: Pars. 4.03b(7); 4.04b(12); 5.10b; 5.11; 5.12; 5.13; 5.14; and 5.15.

VA Form 26-6681, Application for Fee Personnel Designation. This form is used by fee appraisers and compliance inspectors to apply for designation to the VA fee panel. This form will also be used by lenders when requesting approval of the staff appraisal reviewer for delegation of LAPP authority. Reference: Pars. 19.06a and b.

VA Form 26-8261, Certificate of Veterans Status (Accountable). This form is issued as evidence of an individual's veteran status to qualify for better loan terms on FHA insured loans. Reference: Par 2.08.

VA Form 26-8261a/FHA Form 2950, Request for Certificate of Veteran Status. This form is used to apply for a certificate of veteran status for FHA loan purposes. Reference: Par 2.08b.

VA Form 26-8320, Certificate of Eligibility for Loan Guaranty Benefits. This form is issued as evidence that the named individual is eligible for a VA home loan. The amount of available loan entitlement is shown on the form. References: Pars. 4.03(2); 4.04b(2), c(2), and f(1).

VA Form 26-8375/HUD Form 92052, Termite Soil Treatment Guarantee. Executed by the builder and pest control applicator as evidence that the soil has been treated for subterranean termites. It warrants against termite infestation for a 5 year period. Reference: Pars. 12.06e(1) and (2).

VA Form 26-8497, Request for Verification of Employment. Used to verify the employment and income of loan applicants who are not self-employed, it may also serve to verify previous employment. References: Pars. 4.03b(10); 4.04b(15); and 5.15a(2).

VA Form 26-8497a, Request for Verification of Deposit. Used to verify funds on deposit with an applicant's bank, credit union, savings & loan, or other financial institution, it is also used to verify loans or other credit extended to the subject. References: Pars. 4.03b(9); and 4.04b(14).

VA Form 26-8736, Application for Authority to Close Loans on an Automatic Basis - Non supervised Lenders. The non supervised lender's application or VA automatic authority. Reference: Par. 1.051(1).

VA Form 26-8736a, Non supervised Lender's Nomination and Recommendation of Credit Underwriter. A nonsupervised lender uses this form to nominate a credit underwriter for VA approval. Reference: Par 1.051(2).

VA Form 26-8812, VA Equal Opportunity Lender Certification. This is the lending institution's certification to VA that it adheres to the letter and spirit of equal opportunity in housing. Reference: Par. 1.07a(4).

VA Form 26-8850/HUD Form 92053, Wood Destroying Insect Information - Existing Construction. Used by the pest control operator to report findings regarding inspection of a dwelling for the presence of wood destroying insects. The veteran-borrower must sign the completed form to signify awareness of the results of the inspection. Reference: Pars. 12.06a(1); 23.01b(4).

VA Form 26-8923, Interest Rate Reduction Refinancing Worksheet. The purpose of this form is to compute the VA funding fee, loan origination fee, loan discount, and maximum loan amount for an interest rate reduction refinancing loan. References: Pars. 4.03b(4) and c(3); 4.04c(3); 4.08b(3) and (4)(c); and 6.10c.

VA Form 26-8937, Verification of VA Benefit-Related Indebtedness. This dual purpose form is submitted to the local VA office to verify the existence of VA benefit-related indebtedness that a veteran-borrower may owe to the Department of Veterans Affairs. If an indebtedness is disclosed on the form, the veteran must make acceptable arrangements with VA for repayment of the debt before the loan may be closed and guaranteed. It also serves to verify a veteran's exemption from the VA funding fee due to a service-connected disability. References: Pars. 4.03b(5); 4.04b(5) and c(2); 4.08b(4)(f); and 5.18b.

VA Form 26-8986, Loan Guaranty Funding Fee Transmittal. This form must accompany the lender's funding fee submission to the VA lock box depository. The mailing address and instructions for completion are on the reverse of the form. It is not used for wire transfers of funding fees. In the event of a funding fee shortage, a preprinted 26-8986 is sent to the lender, along with VA's shortage notice (see VA Form 26-0500), to be used for transmittal of the shortage amount to the lock box. References: Pars. 6.15c and e(2); and 6.16b(1).

VA Form 26-8998, Acknowledgment of Receipt of Funding Fee From Mortgagee. The receipt a lender receives as evidence of payment of the VA funding fee, it must be submitted with the certification of loan disbursement when the lender requests VA guaranty. References: Pars. 4.03c(4); 4.04b(4) and c(4); 4.08b(4)(d); 6.15e(1) and (3); and 6.16c.

VA Form 26-8999, Acknowledgment of Receipt of Funding Fee Shortage from Mortgagee. The receipt a lender receives upon payment of a shortage amount as disclosed on VA Form 26-0500, Notification to Mortgagee of Funding Fee Shortage, it replaces VA Form 26-8998 as the submission form to accompany the closed loan package to VA. References: Pars. 4.03c(4); 4.04b(4) and c(4); 4.08(4)(e); 6.15e(2); and 6.16c.

Freddie Mac Form 70/Fannie Mae Form 1004, Uniform Residential Appraisal Report. This industry accepted form is required to be used by VA fee appraisers in the completion of appraisals for all property types, with the exception of used manufactured homes, in the VA Loan Guaranty Program. References: Pars. 4.09d(1); 10.02a; 19.04c; 19.05; 20.09; 21.09; 21.12; 21.14; 21.16; 21.19; 21.20; 21.21; 21.23.

HUD-1, Settlement Statement. Required by RESPA for most real estate settlements, this form discloses the parties to the transaction and lists the costs, fees, charges, and disbursements incident to the settlement of the loan. References: Pars. 4.03c(7); 4.04b(8); 4.05g(6); 4.06; and 4.08b(3)

INDEX
(Paragraphs)A

- Access 11.04d; 13.03a
- Acquisition Appraisals (See Default, Acquisition, and Liquidation Appraisals)
- Administrative Error 12.04
- Airports, Properties Near 10.07; 10.08; 21.15d
- Alteration, Improvement or Repair Appraisals 3.10; 8.02a; 9.01a;
9.04a; 10.03; 10.06b; 12.07b; 14.02; 14.03; 14.05; 14.06c, 17.05c;
17.10e, 21.15e; 23.04e
- Amortization 5.05; 6.02
- Appliances (See Equipment, Easily Removable or Built-In)
- Appraisals
- Eligibility of Property for Appraisal 9.03; 17.05b; 17.10d;
18.02a; 21.03
 - Request for Appraisal 8.02; 9.01; 9.02; 9.07; 9.08; 17.05; 17.06;
18.02c; 21.05
 - Assignment of Appraiser 8.03; ch. 10; 15.03; 17.10; 18.02c; 20.02;
21.04
 - Appraisal Report Review ch. 11; 17.08; 18.02d; 19.02; 20.04 23.03
 - Reasonable Value Determinations 8.01; ch. 9; 11.01; 12.04; 20.01;
21.01; 21.12
 - Certificate of Reasonable Value 9.01; ch. 12; 17.05
- Appraisers 9.01a; 9.08b; 10.01; 10.02; 11.01; 11.02; 14.01; 17.05c;
17.10; 18.02c; 19.04c; 19.07; 20.02; 21.04; 21.08
- Assignments (See Appraisals; Assignment of Appraiser.
See Compliance Inspections. See Case Number Assignment.)
- Attorney-in-Fact 4.05g; 7.08
- Automatic Authority 1.05; 1.06d; 4.03; 18.02b; 22.07
- Automatic Basis 1.04; 1.05; 1.06; 3.11; 3.16f; 4.04; 4.05; 4.07;
4.08b; 5.07c; 5.12b; 5.15n; 5.16b; 5.18b; 5.20c; 5.21; 5.22; 5.23;
6.04; 6.15b; 17.02a; 17.07a; 18.01; 18.02d and e; 19.01; 19.02;
19.06a; 19.09b; 20.02a; 21.01; 22.06

C

- [CABO (Council of American Building Officials)
Model Energy Code 9.01a; 9.03c; 12.06g; 13.01a; 23.01b(9)]

Carpet	11.03; 12.06h; 14.08b
Case Number Assignment	9.01; 9.08a; 18.02c; 21.04; 21.22
Central Office, Referrals by Field Stations to ..	9.01d; 12.01; 14.05b; 15.02a; 16.06a, c; 16.08d; 16.14; 19.06b; 20.05; 20.07; 22.01
Certificate of Commitment	3.16d; 4.05; 4.08b; 5.22; 7.08e
Certificate of Eligibility	2.03; 4.02; 4.03; 4.04; 4.08b; 5.02a; 5.15o; 5.19; 6.12b; 7.08b
Certificate of Reasonable Value (See Appraisals; Certificate of Reasonable Value)	
Certifications	9.01a, e; 9.03b; 9.06b; 9.08; 12.06; 13.12; 14.03; 14.04d; 14.08b; 14.11; 16.14a; 16.15; 17.05b; 17.08d; 17.10e; 17.12; 19.05; 19.06; 19.09; 21.15[; 23.01b(9)] (See also Statements Required.)
"Change Orders" (See Exhibits)	
Changes in CRV (See Endorsements to CRV. See Appraisals; Reasonable Value Determinations.)	
Changes in Plans and Specifications	9.07a; 9.08b; 13.12; 14.02 14.08a; 14.09
Changes in Value (See Appraisals; Reasonable Value Determinations)	
Closing Costs	3.13; 4.07b; 4.08; 4.16; 5.01; 5.12b; 5.22; 6.01; 6.08; 11.02e, 15.02d; 23.03f
Code Enforcement Areas	9.04b; 13.01; 13.02; 17.05c; 17.07c; 17.10e; 21.15a
Commitments (HUD) to VA CRV's (See Conversions, HUD Conditional Commitments to VA CRV's)	
Committee Appraisals	9.01a; 9.02; 9.06d; 9.08b; 10.02; 12.03b; 12.08b; 13.02d; 14.07d; 15.02c
Community Water Supply and Sewage Disposal Systems (See Water Supply and Sewage Disposal Systems)	
Comparable Sales Data (See Market Data Analysis Approach to Value)	
Complaints	13.04b; 21.18; 23.02c
Complaints, Discrimination in Employment (See Equal Employment Opportunity)	

June 12, 1995

VA Pamphlet 26-7
Change 23

Compliance Inspections 6.08c; 9.01a; 9.03; 9.05; 9.06; 12.06;
12.08c; 13.11b; ch. 14; 15.01; 15.02; 16.06c; 17.05; 17.10; 21.16;
21.19; 23.01

Compliance Inspectors ch. 14; 15.01; 17.05c; 21.16a

Composite Noise Rating Zones (See Airports, Properties Near)

Conditional Commitments (HUD) to VA CRV's (See Conversions, HUD Conditional Commitments to VA CRV's)

Conditions (General and Specific) on CRV's 9.01e; 9.04b; 12.04; 12.06; 17.12; 20.02; 21.15a; 23.01
(See also specific subject heading in index)

Condominiums ch. 17; 21.03; 21.10

Construction Complaints (See Complaints)

Construction Cost Analysis (See Cost Analysis)

Construction, Proposed (See specific subject heading in index)

Construction Warranty (See Warranty, Proposed or New Construction)

Contract, Sales 3.08; 4.07g; 5.01; 5.09; 7.07; 9.01e; 9.06c; 11.02; 12.05a; 12.07a; 13.04b; 13.08; 14.05b; 16.08f; 16.09e; 16.14a; 17.12; 21.09; 21.20; 21.22; 23.03c

Contractual Fee Basis Services 15.03; 19.07c

Conversions, HUD Conditional Commitments to VA CRV's 9.01b; 11.02c; 12.07c; 12.11; 17.05a; 21.22

Copies of Appraisal Reports and CRV's 11.04d; 12.02; 12.08; 21.09; 21.13; 21.14; 21.17

Corps of Engineers, U.S. 13.10a

Cost Analysis 10.06; 21.06d

Credit Shortage Areas (See Housing Credit Shortage Areas)

Credit Standards 2.05; 4.07f; chap. 5, section II

Customer Preference Items 9.03c; 18.02a; 23.02

D

Default, Acquisition, and Liquidation Appraisals 9.01a; 10.04; 11.04

Defective Conditions 13.03a; 17.07b; 21.15b; 23.02c
(See Paint, Lead-Based. See Structural Defects)

Depreciation 13.08

Designation to Fee Rosters 8.03; 10.01; 14.01; 14.04b

Determination of Reasonable Value (See Appraisals; Reasonable Value Determinations)

Deviations from Plans and Specifications	9.07a; 9.08b; 13.12a; 14.02; 14.08a; 14.09
Direct Loans	9.02; 9.04b; 16.06c; 16.07a
Direct Sales Comparison Approach to Value (See Market Data Analysis Approach to Value)	
Disciplinary Action (See Suspension/Other VA Disciplinary Action)	
Discrimination (See Equal Employment Opportunity)	
Dry Rot	12.06a
EPA (See Environmental Protection Agency (Water Quality)	
Earthquake Hazards (See Soil Instability)	
Easements (See also Title Limitations.)	6.22b; 12.10b; 13.03a; 16.05i; 16.06; 16.09a; 16.14b; 16.15
Economic Life, Remaining (Conversion of HUD Commitments to VA CRV's)	4.05c; 5.04; 5.07b; 11.02c, g; 12.11; 21.12; 23.01
Electricity (See Title Limitations)	
Eligibility of Property for Appraisal (See Appraisals; Eligibility of Property for Appraisal)	
Employment Discrimination	15.01
Employment of Technical Fee Personnel	15.03
Encroachments	6.22b; 12.10b
Endorsements to CRV	12.06; 13.04b; 13.12a; 16.06a; 23.01b
Energy Conservation	3.16; 5.07a; 23.01b
Engineering Bulletins (HUD)	13.02b; 13.05; 14.08b
Entity Concept, Single Real Estate	13.03a
Environmental Protection Agency (Water Quality)	12.06b; 13.03a
Equal Employment Opportunity (EEO)	15.01
Equipment, Easily Removable or Built-In	10.02b; 11.03; 12.01b
Erosion	13.03a; 13.10; 14.06b

Escrow Agreements (See also Postponed Improvements)	14.08; 14.11c; 15.02c; 16.06c; 21.16b
Examination of Exhibits in File (See Exhibits)	
Exceptions to Minimum Property Requirements (See Minimum Property Requirements)	
Excess Land (With Farm Residences)	10.06
Exemptions from Minimum Property Requirements (See Minimum Property Requirements)	
Exhibits	9.01a; 9.04; 9.06; 12.06; 12.10; 13.12; 14.05; 14.11; 16.05a; 16.06a; 17.05c, e
Existing Construction (See index heading for specific topic in question)	9.03

E

FAA (See Federal Aviation Administration)	
FHA (See Housing and Urban Development, U.S. Department of)	
FmHA (See Farmers Home Administration)	
Farm Appraisals	10.06
Farmers Home Administration (FmHA)	21.10
Federal Aviation Administration	10.08a
Fee Personnel (See Appraisers. See Compliance Inspectors. See Technical Fee Personnel)	
Fees	15.02; 17.11
Field Reviews (See Appraisals; Appraisal Report Reviews. See Compliance Inspections)	
Flood Hazards	5.13; 12.06c; 13.03a; 21.15c; 23.01
Floor Covering	14.08b
Foreclosure Appraisals (See Default, Acquisition, and Liquidation Appraisals)	
Fraud	12.04; 18.02e
Funding Fee	3.13; 4.03c; 4.04c; 4.08b; 6.02a; 6.09; 6.10; 6.11; 6.12; 6.13; 6.14; 6.15; 6.16; 21.12; 23.01a

G

Geographic Card File	9.08b
Geological Instability (See Soil Instability)	
Geographic Limits	3.14
Geological Survey, U.S.	13.10
Graduated Payment Mortgage Loans	5.01; 5.05; 5.07
Ground Rent (See Leasehold Estates)	
Growing Equity Mortgages	5.05; 5.08

H

HUD (See Housing and Urban Development, U.S. Department of)	
Hazards (See also Soil Instability. See also Paint, Lead-Based)	13.03a; 13.10
Health Authority, Local (See Water Supply and Sewage Disposal Systems)	
Heating Systems	11.04a; 13.03a; 14.06b; 17.05c; 17.10d
Homeowners Association	5.13; ch. 16; 17.02; 17.06
Housing and Urban Development, U.S. Department of	9.01; 9.02; 9.03; 9.05; 9.08; 11.02; 12.06; 12.11; 13.02; 13.06; 13.09; 14.03; 14.11; 14.12; 15.02; 16.06c; 17.05a; 19.03; 19.09; 20.02; 21.03; 21.10; 21.11
Housing Credit Shortage Areas	13.02e

I

Improvement Appraisals (See Alteration, Improvement or Repair Appraisals)	
Income Approach to Value	21.06d
Indian Tribally Owned Lands	9.01b
Ineligible Properties, For Appraisal Purposes (See Appraisals; Eligibility of Property For Appraisal)	
Information, Release of (See Appraisals; Certificate of Reasonable Value. See Exhibits.)	
Insect Report (See Wood Destroying Insects)	

Inspections (See Compliance Inspections. See Wood Destroying Insects)

Instructions to Appraisers and Compliance Inspectors

(See Appraisers. See Appraisals; Assignment of Appraiser. See Compliance Inspectors.)

[Insured] 10-Year Protection Plans 9.03; 9.06f; 12.06g; 14.05;
18.02a; 21.15b; 23.01b; 23.02

"John Doe" Appraisal Requests 9.01e

Joint Loans 1.05j and m; 3.04; 4.03a; 4.08c; 5.02; 5.151; 6.10e

L

Land, Excess 10.06

Land Planning 13.02c; 13.12; 16.08c

Lead-Based Paint (See Paint, Lead-Based)

Lead In Water Supply 9.06b; 12.06f; 23.04

Leasehold Estates 9.01; 16.15; 17.02c; 21.11

Lender Appraisal Processing Program (LAPP) chs. 18 thru 23

Lien 1.03; 1.05; 3.01; 3.02; 3.10; 3.11; 3.13; 3.16d; 3.17; 4.07; 4.08; 6.02; 6.04;
6.05f; 6.08; 7.06; 7.08f; 12.10b; 16.02; 16.06a and c; 16.07a, b and f; 16.08c;
16.12b; 21.12

Limitations (See Title Limitations. See Appraisals; Certificate of Reasonable Value)

Liquidation Appraisals (See Default, Acquisition, and Liquidation Appraisals)

Loan Analysis 4.03b; 4.04b; 5.07; 5.09e; ch. 5, section II

Loan Number Assignment 9.01

Local Planning Authority (See Code Enforcement Areas)

Loss in Value (Default, Acquisition, and Liquidation Appraisals) 9.01a; 10.04; 11.04; 21.07

M

Market Data Analysis Approach to Value 10.04; 10.05; 10.06; 10.07; 11.02b; 11.04b;
12.09b; 21.06b; 21.08; 21.12; 23.03

Master Certificate of Reasonable Value (See Committee Appraisals)

Materials and Methods, New (See Unconventional Construction)

Material Releases (HUD) 13.02b; 13.05; 14.08b

Maturity 1.03a; 4.05c; 5.04; 5.08

Maximum Guaranty 4.07; 4.08c; 5.02; 5.07b

Maximum Loan 3.13; 5.01, 5.07b; 5.09; 6.05; 6.10c; 23.01a

Maximum Rate of Interest 5.03

Mechanical Systems 13.03a; 14.06b (See also Heating Systems)

Minimum Property Requirements (MPR's) 3.02e; 9.01a; 9.03; 9.07; 11.04; 12.07;
ch. 13; 14.02; 14.07b; 14.08a; 17.05; 18.02a; 19.07a; 20.02a; 21.01; 21.06; 21.09

Modifications to Plans and Specifications
(See Exhibits. See Changes in Plans and Specifications)

N

Noise, Airport (See Airports, Properties Near)

Non real Property Appraisals (Personality) 11.02e; 11.03b

Nonresidential Use of Property 13.03a; 16.14d

Non supervised Lender 1.05; 1.06d; 18.02b; 19.01

O

Occupancy 2.07; 3.15; 4.08; 5.18; 6.17; 6.20; 9.03b; 12.04a;
13.07a; 16.04; 16.07f; 17.10e; 17.12

Offsite Improvements 10.02b; 14.02; 14.06

Options (Building Variations and Equipment) 10.02b; 12.01b

P

Paint, Lead-Based 13.02d; 13.03; 13.11; 21.15a, d

Partial Release of Real Property (See Release of Real Property Security)

Pest Control (See Wood Destroying Insects)

Photographs (Accompanying Appraisal Reports) 11.04a; 12.02; 21.07b;
21.09; 21.19; 21.23

Physical Depreciation (See Depreciation)

Pictures (See Photographs)

Pit Privies 13.03a

Planned Unit Developments (PUD's) 5.13; ch. 16; 21.03; 21.10

Plans and Specifications 9.03; 9.04; 9.07; 9.08; 12.06d; 12.10b;
13.12; 14.02; 14.04a; 14.07; 14.09; 14.11; 17.05c; 17.10e; 17.12

Postponed Improvements 16.06c

Principles of Appraising 10.07a; 11.02; 19.03

Prior-Approval Loans 3.15h; 4.03; 4.07f; 5.15o; 5.23; 17.02a; 17.07a;
21.21; 22.06

Private Roads 13.03a; 16.07a; 16.09d

Privies 13.03a

Proposed Construction Requirements 9.05
(See index heading for specific topic in question)

Proscribed Areas (See Appraisals; Eligibility of Property for
Appraisal)

Public Health Service, U.S. 13.03a

Q

Quality Control Plan 19.04c; 19.06; 19.07

R

Reasonable Value Determinations (See Appraisals)

Reconsideration of Value Requests 6.02a; 10.04b; 12.09; 21.09

[Reduced-Size Plans 9.06b]

Referrals to Central Office (See Central Office, Referrals by
Field Stations to)

Refinancing Cases 9.01e; 10.06; 12.04a

Release of Information (See Exhibits. See Appraisals; Certificate of
Reasonable Value)

Release of Real Property Security 9.01a; 10.05; 12.07b

Remaining Economic Life (Conversion of HUD Commitments
to VA CRV's) 4.05c; 5.04; 5.07b; 11.02c, g; 12.11; 21.12; 23.01

Repair Appraisals (See Alteration, Improvement or Repair Appraisals)

Repair Requirements (See Minimum Property Requirements)

Requests for Appraisal (See Appraisals; Requests for Appraisals)

Restoration of Entitlement 2.06; 4.05g; 7.08b

Restrictions, Building or Use (See Title Limitations)

Reviews, VA Staff

Appraisal (See Appraisals; Appraisal Report Reviews)

Compliance Inspection (See Compliance Inspections)

Plans and specifications (See Exhibits. See Plans and Specifications)

Roads, Private 13.03a; 16.07a; 16.09d

Roof Covering 13.03a; 17.05

Rosters, Fee Appraiser/Compliance Inspector 8.03; 10.01; 14.04b
(See also Designation to Fee Rosters)

S

Sales Contract (See Contract, Sales)

Sales Price/Value Relationship on CRV 11.02; 11.03; 11.04

Service-Connected Disability 2.02

Sewage Disposal Systems (See Water Supply and Sewage Disposal Systems)

Single Real Estate Entity Concept 13.03a

Soil Instability (Erosion) 13.10

Soil Treatment Guarantee 12.06e

Space Requirements for Living Units 13.03a

"Special Exception" Cases (Existing Property, Less Than One Year Old,
Not Previously Occupied, No VA/HUD Inspections) 9.03c

Specifications (See Exhibits)

Speculative Housing 12.01

Staff Appraisal Reviewer, Lender's chs. 19 thru 21

Statements Required	9.01e; 9.03c; 9.06d; 10.07d; 12.06a; 13.03b; 13.04b; 14.05b; 16.10b; 16.15; 17.05; 17.10d; 19.06; 21.22b; 23.01a
Streets (Access)	13.03a
Structural Defects	12.06g; 17.07b; 21.15b; 23.02
Structural Engineering Bulletins (See Engineering Bulletins, HUD)	
Subsidence	13.03a
Substitutions, Plans and Specifications (See Exhibits. See Changes in Plans and Specifications)	
Supervised Lender	1.03; 1.04; 6.20f; 6.21b; 13.09b; 16.06c; 18.02b; 19.01; 19.04a
Supervision of Program Participants (See Appraisers. See Compliance Inspectors. See Technical Fee Personnel)	
Supplemental Loans	1.05m; 3.10; 4.03a; 6.02d; 17.07b
Surviving Spouse	2.01; 2.02; 3.15g; 4.04c; 4.08a; 6.12b
Suspension/Other VA Disciplinary Action	19.02; 19.09; 21.10; 21.22; ch. 22
<u>T</u>	
Technical Fee Personnel	15.03
Telephone Appraisal Requests	9.01a; 10.04a; 18.02c; 21.04; 21.22
Ten-Year [Protection Plan Related] Appraisals (See [Insured] 10-Year Protection Plan)	
Termite Reports (See Wood Destroying Insects)	
Title Limitations	6.22; 12.10; 16.04; 16.06c; 16.12c; 21.17
Training (See Appraisers. See Compliance Inspectors)	
Trust Deeds (Community Water or Sewer Systems)	13.09b
<u>U</u>	
Unconventional Construction	13.05
Underwriter	1.03c; 1.05c; 1.06c; 5.10; 5.21; 5.25; 5.35; 19.04a; 19.08
Urban Renewal	9.04b

Utilities (See Water Supply and Sewage Disposal Systems. See Title Limitations. See Appraisals; Reasonable Value Determinations)

V

VA Benefit-Related Indebtedness 4.04b(5) and c(5); 4.05c(1)(f); 5.18

Validity Period, Certificate of Reasonable Value 4.05a, d; 5.20e; 9.01e; 12.01a;
12.04; 12.05; 21.20

Value Adjustments 11.01; 11.02; 11.04; 21.07

Value/Sales Price Relationship 11.02; 11.03; 11.04

Ventilation of Structural Spaces 13.03a; 17.05b

Veteran Constructing House for Own Occupancy 9.03b; 12.04a; 13.07a

W

Waiver of Compliance Inspections 14.05b

Warranty, Proposed or New Construction 6.24; 12.06d; 16.15; 17.02q
(See also [Insured] 10-Year Protection Plan)

Water Supply and Sewage Disposal System 9.06b; 12.06b; 13.03a;
13.09; 14.07b; 21.15; 21.19; 23.01; 23.04
(See also Title Limitations. See also Easements)

Wood Destroying Insects 12.06; 13.03b; 17.05b; 21.15a; 21.19; 23.01

Y

Yard (See Access)